

BASIS OF PUBLIC SALARIES

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P R E F A C E

This essay in Public Finance attempts to apply certain basic Economic concepts to one aspect of public administration in the belief that Government is essentially a human institution and that its reorganisation is a human task, and must be approached as a problem of morale and personnel, fully as much as a task of logic and management. As Beveridge put it, it must become the formal responsibility of the state to change the economic system so that men and women have value and dignity of service in peace as they have value and dignity of service in war. The logic and tools of Economics should become the handmaids of a new social policy and never its masters.

This philosophy of social adjustment and subordination of Economic Science to practical policy is, even in accepted theory, hardly two decades old. Russian Economic Planning, American New Deal, Beveridge's Social Security are mere expressions of the spirit "that the object of Government in peace and in war is not the glory of rulers or of races, but the happiness of the common man". In the new Public Services as in the New State, there

should be no helots, and the condition and character of the service must mirror the new social system in which it operates.

The outlook of the state, so far, has been that of nineteenth century Capitalism—in its transitional and decadent form. Consequently, the problem of Civil Salaries was approached by the Islington and Lee Commissions in India, the Haldane, Anderson, Macdonell, Tomlin, and other investigations in Great Britain, and the numerous Federal and State enquiries into economy and efficiency in the United States and Canada in the traditional Ricardian spirit of the Law of Demand and Supply in the open market and *nothing more*. In the words of J. M. Keynes, the Classical theory “dominates the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past. . . .” The circumstances underlying the Ricardian outlook “happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.” The investigations merely reflected their economic and social context.

The context having changed in the Post-War world, the problem of public salaries has been approached below from the new angle. The essay comprises only one aspect of the analysis—the *general theory* relating to the main principles of salary determination. The other comprising the problem of India, suggesting a scheme for the Indian Public Services, will be ready shortly. The views expressed in the essay are completely my personal views as a student of Public Finance. The basic ideas are presented for the critic's judgement, while the *details* such as the level of the initial salary, sliding scale, range of increases and allowance are merely illustrative of the main argument and alterable to suit particular environments.

I have freely drawn upon the sources mentioned in the following pages and I hereby acknowledge my indebtedness to them.

I am very thankful to Mr. G. H. Rama Rao and the Mysore Printing and Publishing House, for the excellent get up and completion of the work at very short notice.

PRINCESS ROAD
VONTIKOPPAL
MYSORE }

M. H. GOPAL

TO
SAROJA

INTRODUCTORY

THE term civil expenditure has a broad as well as a narrow interpretation. In its broad sense it refers to all non-defence expenditure incurred by the state. The

Meaning salaries paid to public servants and the amount spent on materials of various kinds in the service of the community come under this head. But, for our present purpose, the expenditure on stores and materials must be excluded since they do not lend themselves to any standardisation or formulation of guiding principles¹. The narrower interpretation, therefore, is important to us. Obviously, the payments made by the government on this account include the emoluments of all those engaged by the state, in public employment from the highest paid position to the lowest, to carry on the day to day administration in its varied aspects. In the words of the Encyclopaedia Britannica²:

1. Recently and particularly in the United States of America attempts are being made to formulate guiding principles. *Vide* literature such as.....A. G. Thomas: *Principles of Government Purchasing*

2. Vol. V. P. 745

"The Civil Service is the generic name given to the public servants of a state employed in a Civil capacity. It is the machinery by which the executive, through successive administrations, carries on the Government of the country." Thus Public Works, Medical, Revenue, Police and many other parts of the state machine come under this group. The one test of inclusion is whether the department is a part of the state apparatus and employed and paid by the state for service rendered. It, thus, excludes ministers, legislators and other representatives of the demos who participate in the state function for reasons other than employment and whose tenure of office is not continuous but generally intermittent. They are creators of policy which often in a democracy shows frequent changes. In practice, the higher civil servant is often concerned with the formation of policy and the extent to which he can exercise a real and direct influence on government policy in important matters depends on his ability and personality in terms of those of the Minister¹.

To execute this policy and to maintain stability amidst change a large number of civil

1. H. E. Dale : *The Higher Civil Service*.

employees is essential. These may be compared to the steel frame of a modern building.

Importance The structure of the state, the working of the administration, the carrying out of the routine

are dependent upon the existence and efficiency of this framework. Without it confusion and chaos would crop up. After the defeat of 1918 and throughout the terrible times of the inflation, when the middle classes were destroyed and everything seemed to go under, the German Civil Service maintained, on the whole, their standards and enabled the state to survive¹. For the collection of taxes, the spending of public moneys, the administration of justice and jails, the preservation of internal order, the execution of administrative routine and a host of other absolutely essential functions the civil administrative machinery is necessary. It is as primary and essential as defence against external aggression, and perhaps even more urgent and absolute, for, it is the bedrock on which a state is built and without which it cannot function or even exist. The importance of this type of expenditure is, in fact, growing

1. Erich Kordt: *The Public Servant in Germany*⁹ (*Public Administration* 1938, P. 183.)

because of increasing complexities in government and administration. "The expansion of Social Services during the last four decades has been revolutionary in effect. We have entered on a new stage of social development and are still far from the end of it."¹ Thus, in Great Britain about 1800 the public servants numbered 16,267 whereas by 1938 they reached 600,000 and by 1943 they exceeded one million². In the United States of America public employees in 1938 numbered three and a quarter million, of which 934,000 were federal servants, 252,000 state, 591,000 municipal and the rest, counties, minor jurisdictions, etc³. "As the organisation increases in size," observe Friedrich and Cole,⁴ "the problem of securing and maintaining high grade personnel can only be solved in terms of well-defined standards or norms, which involve the recognition of recurrent, normal situations." As the memorandum of the Second Division Clerks in Great

1. Sir Gwilym Gillom: Public-Service what value (*Public Administration*, 1938, P. 341)

2. R. W. Rawlings: *The Civil Service and the People* pp. 9-10.

3. J. D. Kingsley: Some Aspects of the American Public Service (*Public Administration* 1939, P. 185).

4. C. J. Friedrich and T. Cole: *Responsible Bureaucracy a study of the Swiss Civil Service*, P. 10 (Harvard University Press, 1932).

Britain put it,¹ "The civil service is becoming more and more the indispensable servant of the community, and it is the business of the community to ensure that all who serve it are appointed on the score of capacity and character alone." The functions of government are being enlarged both in variety and number while the administrative technique is itself becoming complicated and elaborate. At the same time, the growth in the varieties of occupations open to the people whom the state would like to employ introduces a further complication in the choice and payment of government employees. Moreover, modern states with their tendency to decentralisation of functions into federal, provincial and local jurisdictions add on to the importance as well as the complexity of the problem. "The tasks to be covered by the administrators are now so much wider and more numerous that it is fair to ask dispassionately whether the same kind of administrative technique and ability are adequate or whether some different aptitudes and temperaments may not be needed."² In fact

1. *Memorandum submitted to Royal Commission on Civil Service in Great Britain*, 1915.

2. Josiah Stamp: *The administrator and a planned economy* (*Public Administration* 1938, P. 5).

new functions require a new personnel, and, perhaps, nothing short of a completely reconditioned state apparatus.

We might, however, conclude that civil expenditure relates to the remuneration made by the state to its servants, high or low, and whether the employee is in the central or any other type of government in the state; that it is a very essential part of the state and, consequently, the expenditure thereon is both an integral and very important aspect of public expenditure; and, therefore, the problem as to what principles should underly the determination of the remuneration given to these public servants becomes important. A fundamental point to remember is that the principles should relate to the general benefit to the community and not individual advantage to any person though, in practice, it is impossible to avoid the personal element even in public service.

At the outset, we might leave out of account gratuitous services as of very little importance in administration.

Gratuitous service Except in emergencies, free service on a large scale is a rarity. In some circumstances and in some occupations the spirit of sacrifice and the

glamour of honour and power would be enough recompense for serving society and the state. But public administration cannot be based permanently or completely on such service; because there will not be a sufficient number to man the whole administration. Further, such free service, if voluntary, can only be generally temporary in character, for only a few can afford not to work for their living, and even they have generally a limit to their public spirit. It is possible that compulsory free service may be introduced, as, for example, during emergencies. Such commandeering, apart from the interference with the individual's rights and, therefore, being undesirable, will necessarily add to dissatisfaction and revolt in the services leading to inefficiency and irresponsibility. It might even upset the established or desirable economic equilibrium by interfering with the occupational adjustment of labour forces. Further, the services commandeered may not be of sufficiently trained men. Continued service resulting in voluntary acceptance of jobs generally equated with payment would mean experience and efficiency. Insufficient, inexperienced, and irresponsible work may ultimately prove uneconomical.

- Finally, free service may lead to graft which might undermine the very structure and morale of the government itself. Thus, the scope of free service in public administration is definitely narrow.

As an American writer¹ put it "It is no use asking people to serve for love and to live on air. It is very well to refer to the unselfish service and devotion of our leaders in social service. But we must recognise that to-day social service has become a profession with a large personnel. There is no justification for regarding social work as any more important and fundamental for the welfare of the public than some other profession such as medicine, law, teaching and engineering; but there is no justification for expecting service of this type without corresponding remuneration any more than there is for expecting the services of physicians, lawyers, teachers or engineers. The person who suggested that several of his friends would be perfectly willing to serve as President of the United States without any remuneration at all and that 75,000 dollars or more for the salary of the national executive was pure waste

1. *Annals of the American Academy of Political Science*, 1924.

may have been an excellent wit but hardly a constructive statesman. It is futile to attempt to separate interest in salary from interest in work to such an extent as to make the requirements of one independent of those of the other. All but a very small proportion of adults must work to live and cannot plan a career out of an avocation. The National Education Fellowship has not hesitated to publish its firm belief in the importance of recognising the intimate relationship between teachers' salaries and the quality of public education. To attract intelligent, wide-awake and well-trained young men and women, to hold them to their tasks, to interest them in their subjects by removing irrelevant worries of social status and economic independence, to instill stimulative rivalry for better competency—all these are acknowledged as aids for making better teachers and, therefore, raising the level of public education."

The foregoing remarks are true not only of the teaching profession but of any kind of employment. A scientific basis of civil expenditure is a resultant of three fundamental principles namely: Efficiency, Compensation and Economy. Each one of these represents a particular point of view. The principle of

Efficiency is representative of the employer and looks at civil expenditure through the eyes of the administration. How best can the government and its functions be carried on? That is what underlies the principle of Efficiency. The point of view of the employee underlies Compensation which is essentially financial in outlook just as Efficiency is administrative in character. This principle analyses how much reward is expected and will be paid, efficiency being given. Economy is very much broader in outlook, for it takes up the standpoint of the community—the ultimate beneficiary. It is a resultant of efficiency in terms of compensation Efficiency and compensation being given, is the net return to the community from the expenditure most economical, the term economy being used in its widest connotation as affecting the welfare of the community? Each of these principles forms a step, Efficiency leading on to Compensation and ending in Economy. Civil expenditure, in general, and salary determination in particular, are the outcome of a compromise among these principles, none of them being capable of application in its entirety.

II

THE PRINCIPLE OF EFFICIENCY

Governments came into existence to perform certain socially necessary functions most effectively. With increasing democratic control the need for competent discharge of duties

Importance

by public servants, high or low, is increasingly felt. As Robson remarks,¹ success or failure of administration depends upon the degree of devotion to duty, public spirit, integrity and competence that can be evoked in the service. In fact, the degree of success of any administration, and especially of a democratic one, depends entirely upon the degree of efficiency found in the administrative personnel.

Efficiency, therefore, must be regarded as the bedrock of all administration. The growth of a science of public administration and of the various methods of classification, standardisation and similar administrative technique have largely been the result of the growing importance of efficiency in running a government and of the need to improve the quality of the service. On account of the control over police

1. *The British Civil Servant*, P. 27.

and military power, and the absence of a rival, a government, which forsakes the goal of efficiency, may survive but will lead only a lingering existence.

Efficiency, however, is always the basis of private undertakings which can never tolerate incompetence. If economies can be effected by discharging or replacing less able employees, a private concern is both willing and ready to do it, for the Law of the Survival of the Fittest rules in private life and efficiency, therefore, should be the sole determinant. Such should also be the aim of all governments, but often efficiency is sacrificed in public service for less important issues. This is the case in varying degrees in many countries, so much so that an American writer¹ has regarded government and private business as in all respects opposite.

What exactly efficiency means is difficult to define, for it is a very elastic and elusive concept, especially where the

Interpretation : service does not result in any tangible return, for example, in a non-industrial department. Broadly speaking, we might accept Prof. Bowley's interpreta-

1. *Annals* 1924, P. 50.

tion that less the effort wasted, the greater is the efficiency and, in dealing with the working of an administration, the effort and the result are to be measured by the aggregate put forth by all its members. Generally, this shows itself in the saving of time, quicker and more accurate disposal of business, and a larger turnover of administrative work by fewer people.¹ In fact, administrative efficiency might be equated with promptness and accuracy so far as ordinary departmental government work is concerned. This means larger output and lower cost. In industrial establishments the product is in tangible form and the cost is calculated in terms of money cost of production; in non-industrial departments, the output is in terms of the files disposed off and the cost in the form of economy in the number of employees.

Many factors affect administrative efficiency largely as a result of applying the spirit of rationalisation to administration. To start with, simplification of departmental procedure and the avoidance of 'red-tapism' go a long

1. Measurement of staff output in clerical work? (*Public Administration* 1937, pp. 255 and ff.)

way.¹ Administration has, until comparatively recent times even in advanced countries, developed in a manner almost entirely haphazard. The growth of new functions giving rise to new agencies has meant a great deal of overlapping and conflicting powers and personnel. The tendency of human institutions is to develop slowly and without plan, and government administration has followed the same course. A reorganisation, therefore, in terms of changing human needs is necessary. As an administrative authority put it, "An efficient state government is rendered possible only by simplification and definite responsibility throughout all parts of this complex mechanism", as in the British Local Government Act of 1929. How this can be effected and the other ways of betterment, such as reduction of administrative departments, consolidation of overlapping jurisdictions, division of functions between the various limbs of the state and the many problems of personnel, purchasing and budgetary control are a part of public administration as such and so irrelevant here.

1. Lord Percy: Civil Service under modern conditions of legislation and administration (*Public Administration* 1933).

The second factor is the classification of duties and personnel,² which constitutes the basis of an equitable compensation plan. Scientific classification makes better morale possible, gives scope for proper selection of employees and, since there is a comparable basis for selection, makes fair promotion easy. It helps salaries standardisation and, thus, makes better service to the tax payer available at lower cost. Classification, which is the basis of efficiency, is no doubt different from compensation but it is a prerequisite of and a basis for working out a compensation plan. Its merits depend upon its adaptability for serving certain practical ends which should be perceived before any classification is undertaken.

Classification is of three kinds—of duties, of personnel and of salaries. Duties classification serves as a basis for selecting, compensating, promoting, laying off, training, transferring, rating on efficiency, and dismissing and retiring the personnel. It allocates positions to classes and fixes salaries on the basis of the

2. Fred Telford: Classification and salary standardisation (*Annals* 1924 pp. 206 and ff.)

duties and responsibilities of the class regardless of organisation units and the personal views of the administrator. It also makes budget-making and improvement of organisation possible. There are certain fundamentals in duties classification such as classes to be recognised, qualifications of entrants, completeness of the class definition, etc.

Personnel classification is the instrument for perfecting the application of the merit system and for making possible accurate tests of the fitness of the candidates for the positions they occupy. Its key stone is the merit system which implies a complete survey of all positions, duties, responsibilities and qualifications; and the fixing of tests to determine these qualifications and the evolution of efficiency rating which differs from class to class. It prevents unqualified employees from getting through the back-door and, thus, causing serious indirect loss and doing irreparable mischief to the efficiency and morale of the particular department and also of the administration in general.

Classification, essential for successful personnel administration, needs responsible administrative authorities with intimate knowledge of

the personnel. It simplifies procedure and makes possible better methods of selection, so as to give full play to the abilities of individual workers and to reward properly those intangible qualities which an employee develops through service. To attain efficiency, classification must be of positions rather than of persons. It must be simple and easy, with few classes and so defined as to include all work requiring essentially the same qualifications for its performance. The technique of classification, however, does not concern us, but we should bear in mind that a thoroughly efficient personnel system demands a well organised hierarchy of permanent positions.

A third aspect of efficiency is the definite allocation of responsibilities and functions between different administrative limbs as well as individuals. In private industry a prime essential of efficient operation is such location of authority in the hands of a single individual; otherwise, the general overhead cost will increase. Private industry recognises further that the judgment of the technically competent and immediately responsible officer should be respected, and if unwisely over-ruled

**Allocation of
functions**

leads to a slowing down of administrative action and resulting inefficiency. The principle of governmental organisation must also correspond to that followed by most efficiently organised private corporations. Thus good and efficient public service makes it mandatory that responsibility be fixed definitely. At the same time, greater horizontal coordination between departments would be necessary for efficiency.¹

A final factor influencing efficiency is the method of appointing and promoting the personnel. Real efficiency cannot be secured unless those composing the administration are under a continuing incentive to put their best in doing their work, and the best way is so to organise the system that large opportunities are open for appointment as well as advancement in accordance with merit. So far, many governments have failed to establish personnel systems resting squarely upon the principle of justice, that is, offering equal opportunities to all the citizens to enter government service, equal pay to all employees doing work requiring the same degree of efficiency and capacity,

1. F. R. Cowell: *Efficiency of Public Administration* (*Public Administration* 1933, P. 372). Sir G. Gibbon: *The Civil Service and the war* (*Ibid* 1934).

equal opportunity of advancement, equally favourable work conditions and equal participation in retirement allowances. It is impossible to secure that loyalty, *esprit de corps* and willing labour on the part of employees that is essential to efficiency, where these conditions do not obtain. A great many of these evils are traceable to the methods of appointment. It is a fundamental principle of recruitment to the world renowned British Civil Service that the best entrants are selected on the basis of their general education and proficiency only.¹ Public Service Commissions are the best of the available unsatisfactory methods of appointment, although, there is a tendency for a great deal of politics, prejudice and personal elements to interfere with the fair discharge of the Commission's functions. This, however, is a problem of pure public administration. All that concerns us here is that efficiency which forms the basis of compensation is influenced by many factors of which the method of appointment is one.

There are other considerations influencing efficiency. Thus, after a detailed investigation in

1. A. J. Waldgrave: The middle and lower grades of the civil service (Robson: *op. cit.* p. 72) Also see E. N. Gladden: The Civil Service—Yesterday and tomorrow (*Public Administration* 1942.)

1937,¹ the National Institute of Industrial Psychology regarded inadequate office accommodation as a contributory cause of the loss of efficiency which was estimated at not less than 15 per cent and equivalent in salaries almost to half a million pounds.¹ Similarly, as the Tomlin Commission Report on the British Civil Service said, "The provision of up-to-date equipment and good accommodation is a contribution towards a contented staff . . . The resulting improvement in organisation and increase in efficiency will provide a good return on the outlay involved."

The effects of efficiency show themselves not only in the increase of output but in the reduction of the cost per unit of work done, so that compensation in relation to the unit of work can be on a lower scale than it need be if efficiency is below par. The tests of high efficiency are, as pointed out above, the saving in time, the increase in accuracy and the smooth running of government machinery as well as the larger quantity of work turned out in a smaller period.

1. Quoted in Rawlings, *op. cit.*—Also, Office conditions in relation of efficiency (*Public Administration* 1937, pp. 48-66).

III

THE PRINCIPLE OF COMPENSATION

While the principle of Efficiency is important from the standpoint of the administration or the employer, that of compensation is the guiding factor from that of the employee. The question of salaries or compensation underlies all other considerations. Ability may certainly be higher than the reward indicates, but, in the long run, the quality of men available for service will tend to approach the level corresponding to the salary scale. As Fred Telford observes,¹ "The best way to adjust compensation for employees in the public service is to work out a sound compensation plan and to make salary and wage adjustments in a scientific manner, instead of allowing horizontal increase which could only perpetuate and even accentuate the existing inequalities." This remark will hold good not only of government employment but also of every other kind.

Many factors affect the determination of compensation, but the most important point

1. *Annals* 1924, P. 208.

to remember is the test of adequacy. This test implies that the average level of salaries paid should be adequate to the type of work expected. The conditions of employment and the code of conduct the public servant is required to observe constitute, observes Robson "a vocational way of life as distinct and definite as that laid down for soldiers or clergymen or doctors—Government, therefore, should pay so much and so much only to their employees as is necessary to obtain recruits of the right stamp and to maintain them in such a degree of comfort and dignity as will shield them from temptation and keep them efficient for the term of their service." According to the Royal Commission on the Superior Civil Services in India,² "At present, the best type of Indian is not being obtained for the Indian Police Service partly because of the inadequacy of the emoluments and partly because of the hardship of the career." The quantity and quality of work are determined partly by the worker's ability and partly by his relative demand for income and leisure. Both of these

1. W. A. Robson: *The British Civil Servant*, P. 12

2. Known as the *Lee Commission*, 1924

may be affected by wages. A man's efficiency may be influenced by adequate wages in several ways, such as, better nutrition, more recreation and self improvement. So also his willingness to work may be affected. As Alfred Marshall puts it, a man will work up to a point where the marginal utility of the wage equals the marginal disutility he incurs to acquire it.

Inadequate compensation would result in very disastrous consequences which would not only affect efficiency but also result in financial loss to the state. The first of such effects is the labour turn-over and the consequent cost in terms of efficiency as well as money. Inadequate remuneration would induce trained men to seek employment elsewhere and replacements would necessarily be from the ranks of less efficient people who are new to the job. As in the case of adverse selection in the biological field, the best elements are automatically eliminated and the less fit are brought to the top. For instance, in France, many young men, observes Mon. L. M. E. Roche,¹ passed state

1. L. M. E. Roche: *The Public Servant in France* (*Public Administration*, 1939, P. 33)

examinations only to prove that they had reached a certain level of culture but they left their respective services as soon as they could and usually found well-paid posts in industrial or commercial firms. In 1927 seventy four out of ninety inspectors of finance retired, and 70 per cent of the young men who had passed the qualifying examinations resigned at once. This would mean that efficiency resulting from a trained personnel would not be available and the administration would be placed in the hands of untrained men, progressive loss in efficiency would follow the elimination of the more competent, leading to progressive demoralisation of the office and the constant strengthening of the very forces which commenced the decay. Naturally monetary expenses—direct and indirect—would follow. Thus, there would be the cost of recruiting new employees and the more rapid deterioration of equipment due to ignorance and lack of experience. There would also be operating costs which would include the period of training when the output in terms of efficiency would be sub-normal, the time of the trainer and the time lost in repeating improperly done work. One of the many reasons for the delay associated with govern-

ment machinery is ascribable to such time lost.

The Civil Service Commission of the United States of America calculated in 1919 that the cost of recruiting and certifying new employees in that country exceeded a million dollars, while the Coast and Geodetic Survey estimated the cost of each replacement of scientific and technical employees at over one thousand dollars.¹ According to the American General Land Office, each change of employee in the stenographic posts meant a loss of two hundred to two hundred and forty dollars, while the Columbia Public Library calculated the financial loss due to 183 changes in that library in 1915-19 at 24,150 dollars.² The Library of Congress stated that the cost of turnover might be estimated on an average as equal to the loss of a year's service.³ Often this kind of loss may not appear in financial statements, but, all the same, it is there and it is particularly noticeable in some of the technical departments such as engineering, accounting, medical, etc. Because of this, in Pennsylvania

1. *Annals*, 1924 P. 208

2. *Ibid*

3. *Ibid*, P. 309

salary levels were fixed with the thought that good salaries make for low labour cost and with the proper position of the state, as an employer, in mind.¹

What probably is of greater administrative importance is the breakdown of morale generated among the employees, especially the rank and file, by the loss of trained men and inadequate compensation. Discipline may break down and administrative rot may set in. This consequence works very slowly and imperceptibly and tells on the community in the long run. The importance of morale, therefore, great as it is, is hardly realised by civilian administration, although it is fully acted upon in the defence services where morale of the rank and file is the most important factor. Like a disease which eats into the vitals, gradually and imperceptibly, resulting in the sapping of vitality and making ultimate recovery a long, tedious and, often, doubtful factor, so does the breakdown of morale in government service. The renowned efficiency

Breakdown of
Morale

1. *Vide* Lansburn's article: Classification of positions and salaries in the service of the state of Pennsylvania (*Ibid* 1924. p. 256)

of British administration is largely traceable to the high tradition and morale of that service.

A further consequence of inadequacy is the growth of trade unionism in the services. As is

well known, the origin and growth of the Trade Union movement lie in low wages, long hours and general exploitation of the working classes. Inadequate payment to government servants would naturally and similarly result in the growth of unionism and a disgruntled staff. We notice this already in a number of countries such as the Union of Civil Servants in Great Britain, the Union of Public Servants in France, that of postal employees in India, the American Federation of Government Clerical Employees, etc., and in a number of services especially in the non-gazetted or lower civil service. The effects of strikes, lock-outs and similar concomitants of trade unionism on output are obvious, and similar effects but in a more pronounced form are inevitable if unionism is allowed to grow in government departments as a consequence of insufficient wages.

There are to-day in Great Britain 200 separate unions catering for different sections

of the Services. The cap-in-hand mentality, as Rawlings puts it,¹ is as dead as the graft and corruption which disfigured the service in the early phases of its evolution. And these unions have effected a progressive improvement in the standards of remuneration of every grade and class and themselves acquired a prestige and status which neither the Treasury nor heads of departments can afford to ignore. In the United States of America the civil servants have not only formed unions but affiliated them with the American Federation of Labour which has resulted in forcing salary levels upwards especially in the lower brackets.² No amount of legislative prevention of combinations amongst government employees can put down unionism any more than the Combination Laws prevented the growth of combination in industry. The only remedy for unionism is adequate compensation.

Another serious consequence of inadequacy is the danger of political regime. One of the

1. R. W. Rawlings: *The Civil Service and the People*, P. 61

2. J. Donald Kingsley: Some aspects of the American public service (*Public Administration*, 1938, P. 195); also see, J. W. Brown: Trade Unionism in the Civil Service. (*Ibid*, 1937)

fundamental factors that make for administrative efficiency and stability is the political neutrality of government staff

Political regime as such, whatever their political leanings might be as private citizens. In the opinion of the historian of the British Civil Service, the British political system depends upon the integrity and political impartiality of the civil service. This enviable outlook is found in the British Civil Service and is an important factor in that country's governmental efficiency. Insufficient compensation always opens an avenue for a political party to tempt the loyalty of the employees with the promise of improved conditions. In fact, something like the Spoils' System of America, and perhaps in a more dangerous way, might result where the services are insufficiently rewarded. This consequence is all the more likely in countries like India which are on the threshold of democracy and where the high tradition of administrative loyalty and efficiency has yet to be built up. In the words of Prof. Willoughby¹ "There is no permanency of tenure," no pretence to select the

1. *Principles of Public Administration*, P. 226

most competent, no feeling of responsibility and desire to be efficient and a constant temptation for government employees to promote officially the welfare of their political parties." The Lee Commission echoed these fears with reference to India.¹ "Wherever democratic institutions exist, experience has shown that to secure an efficient civil service, it is essential to protect it, so far as possible, from political or personal influences, and to give it that position of stability and security which is vital to its successful working as the impartial and efficient instrument by which government, of whatever political complexion, may give effect to their policies." Writing of the politician as personnel manager and of the cost thereof to the taxpayer, Prof. White remarks² "The politician has cherished aspirations as personnel manager since the foundation of the American Republic. . . . The costs in terms of dollars and cents, in terms of lowered morale and downward incompetence, in terms of thwarted public purposes and retardation of

1. *Report of the Royal Commission on the Superior Civil Services in India*, 1924, Para 24.

2. *Annals* 1924, P. 306

the struggle for human betterment is very heavy." There are found in thirty eight American States patronage markets in which the politician allots appointments and promotions to public office for personal, factional or party reasons. He seeks to perpetuate the control of the party by manipulation of the civil service and in spite of the most carefully devised legal definition of the rights of civil servants. Temporary appointments are indefinitely extended and new ones created. "Thus over nine thousand such appointments are said to have been made by a recent administration in a large midwestern city."¹

UNTENABLE IDEAS REGARDING COMPENSATION

While, thus, it is true that compensation should be adequate, a number of popular ideas about salaries cannot be economically justified; for instance, the notion that a state, as an employer, is rich and must be liberal in the treatment of its employees since it can afford to be so. There is no doubt that in any country the state is the richest and biggest

1. *Ibid* P. 807

employer. But compensation can never be based upon how rich the employer is. The degree of wealth is evasive and can afford no definite criterion or set a definite standard or help in the evolution of a set of principles relating to adequacy. Assuming that the state is rich, there is no reason why only its employees should benefit. Every citizen, including the government employee, has an equal claim on the state and there are dozen different ways in which a rich state can benefit its citizens. Moreover, when once this vicious idea enters administrative policy, there is no limit to the misuse of the opportunity by the administration to help itself.

A second common fallacy is to associate the scale of salaries with the dignity of the state. Thus, we often hear in less advanced countries, that the dignity of the State prestige of the state demands the payment of high salaries at least to some of its officers. In some of the states which are still mediaeval in outlook, "*Moghul*" in administration and below par in efficiency, fabulous salaries are paid to the chief executive, largely - because of "the dignity concept." Under personal rule and in an uneducated and

undemocratic community such a practice may pass muster. But in modern countries there is no correlation between the dignity of an office and the emoluments it carries. The Foreign Minister of the U.S.S.R. or Great Britain has definitely more power, responsibility and prestige than the Prime Minister of a mediaeval state, although the remuneration of the latter may be larger.

A third argument, advanced particularly in recent years, is that of social justice—that one of the means of reducing
Social justice¹ inequality of incomes is by a more generous treatment, in the first instance, of public employees. This looks almost like an application of the profit sharing concept. But, while it is true that the existing inequalities should disappear, the way out does not lie in increasing compensation. After all, state employees form a small part of the community and certainly not the poorest sections. There are easier and more effective ways of reducing inequality e.g. Social Security schemes. Moreover, “social justice” does not offer a

1. This should not be confused with the new outlook discussed later.

specific, definite and objective standard for determining the level of remuneration.

What, therefore, we need as the basis of compensation is a definite economic principle correlated with the social objective. There can, however, be no general formula which can be applied blindfold to salary determination; for, the latter depends upon conjunctural factors which necessarily differ in different countries and in the same country as between different times. But one essential common factor is the need for incentive to efficiency. The maximum possible incentive to competence can be introduced both by furnishing definite rewards for efficient performance of duties and by the maximum development of opportunity for advancement. If the principle of "equal pay for equal work" and "salaries fair alike to the employee and the tax-payer" are to be realised in practice, it can be done only by basing compensation on sound economics. Salary standardisation prevents paying too much for the individual position or paying so little that an employee with the proper qualification cannot possibly be secured. To equate salaries to quality of work, the basis must be evolved in each particular environment. Such a plan,

which generally operates in advanced countries, establishes rates of pay properly related to the worth of the work, providing the minimum and maximum rates and being integrated with environmental factors such as costs of living, changing economic and employment conditions, etc. The structure of such an equitable plan is discussed in detail below. It is, however, very necessary to remember here that a scientific economic basis in terms of a new philosophy of social adjustment alone can form the foundation of any principle of compensation. The new outlook, of which Planning, Social Security and the Atlantic Charter are expressions, is discussed below later.

Economically, government servants are mere wage earners supplying labour. Such service may be utilised by the state in two apparently different categories: (1) *Non-industrial*, as a part of the administrative machine, in the civil, judicial, revenue, police, etc. departments and (2) *Industrial*, as workers in a production unit such as industries, agriculture and even public works. The first variety

How reward of
labour is
determined¹

1. I have closely followed J. R. Hicks: *The Theory of Wages*.

which has generally a direct demand renders service resulting in no tangible product while the second characterised generally by derived demand helps often in the creation of tangible output. But, in essence, both belong to the same group and render ultimately similar kinds of service. Consequently, they must be regarded merely as a part of the labour force in the community in the same way as, for example, in a cotton mill. From this point of view, the economic principle which underlies wage determination in general should hold good in the case of government employees with necessary modifications.

In a free market,—i.e. where labour is not forced, as in an emergency or even in a communistic state, to accept whatever is given and has the liberty to choose the employer,—the theory of wages is simply an application of the general theory of value, where the demand and supply factors play a predominant part. The fundamental principle of this theory is the law of marginal productivity. According to it, wages are determined by what the marginal labourer contributes to production or to his employer. The general tendency is for the wages of labourers of equal efficiency to become

equalised in different occupations, allowance being made for other advantages of employment. If we suppose technical methods of production in every industry to be fixed, there is a determinate rate of wages which will make demand equal to a given supply. Then the labour market is in full equilibrium, and given the supply of labourers and their efficiency, every man should receive the same wage. Equal wages are a necessary condition of equilibrium. The only wage, moreover, at which equilibrium is possible is a wage which equals the value of the marginal product of the labourers. In actual practice, however, there is no such equality in the real labour market and the divergence between the labour market and the wage level gives rise to changes in employment. The determination of wages by marginal productivity is somewhat rough, and there is, in fact, a certain range of indeterminateness within which wages can change without there being any reaction on the demand for labour. So far as there is a range of indeterminateness, wages are more likely to lie at the higher than at the lower end of the range. The possibility of there being an appreciable range depends to some extent on the elasticity of the demand

for labour, which itself largely depends on the degree to which substitution is possible.

The wages of a particular man must lie within two limits: he cannot be paid more than the man who stands next to him in the order of efficiency but who is just more efficient than himself; and he cannot be paid less than the man who stands next below him. Thus the range of any average workman cannot be changed appreciably without giving opportunities for substitution and displacement. The range of indeterminateness ordinarily is so narrow that it is almost not worth consideration. With the exceptional man, however, things may be different; the difference in efficiency between one man and those who are most like him may be sufficiently great for his wage to be determinable within fairly wide limits. Efficiency is, no doubt, a complex of various qualities, but there is a tendency for men of particular qualities to move towards those employers who can make the best use of them. The adjustment of wages to efficiency is unlikely under conceivable circumstances to be perfect.

The forces making for equilibrium in the labour market are for the most part rather

slow in their action. There can only be a rough approximation of wages to efficiency to cluster about an average so that a standard rate will naturally emerge. The readiest means of partial adjustment is the adoption of standard rates suitable to the average workman but exceeding the value of the least competent.

In analysing the equilibrium theory we should remember that economic adjustment requires time, trouble and foresight and involves cost. There is often a large class of workers whose efficiency is high enough for them to earn more but whose mobility may be affected because of incomplete knowledge of opportunity and because of unwillingness to disturb social ties. So long as these factors, especially costs of transference, can be spread over an indefinite period, they are not important but their influence on action becomes marked in economic dynamics, though they may not always be sufficient to shut out competition over a considerable range. The attraction of high rates will set in motion a gradual flow of labour from less active to more active centres of labour. Even if some of the men cannot carry out a threat of moving out, unfairness in reward would certainly diminish

their willingness to work and so their efficiency. If they move, they can be replaced only by others less efficient. A rise in wages, thus, depends on the action of workmen, on their moving from one employer to another and on their consideration of the possibility of such movement. It is, therefore, a slow process, indeed so slow that it is not by any means confined to periods of spectacular development of the demand for labour in particular trades or areas but is going on all the time. The conditions of equilibrium postulate no more than that the *net advantages* of employment in different places should be equal for labour of equal efficiency.

The movement of labour from place to place is insufficient to iron out local differences in wages, but the movement does occur and recent researches indicate more and more clearly that differences in net economic advantages, chiefly differences in wages, are the main causes of migration. Since the labour market is not a perfect market, equalising forces do not act quickly and easily, but, nevertheless, they do act. Such a movement in search of betterment is found throughout the nation. Even within a trade, equalisation is not com-

pletely effective and between trades it is much less effective as the obstacles to movement are greater. The earnings of doctors are higher than those of postmen largely because of the long training which is required of doctors and which comparatively few people can afford, but probably also because comparatively few postmen would make good doctors even if the cost of training were removed. So, movement between trades may not be very effective in equalising wages and even the net advantages of different occupations.

The law of equal net advantage may now be applied to the specific case of government servants. As pointed out already, their labour does not differ in essence from that of other kinds. The compensation for their service comes under two broad classes : (1) the tangible return (2) the intangible element.

Tangible return consists of the reward in the shape of monetary income as well as in kind. The first one includes the weekly, monthly or annual payment and also of various types of allowances such as duty, carriage, house, sumptuary, separation, etc. All these are in the

form of money and may be paid at regular or irregular intervals. In addition, a number of payments may be made in kind e.g. the free availability of a house as in the case of a Resident Medical Officer, free conveyance, e.g. of an executive officer, free servants, free railway facilities and sometimes, free supply of food and other materials. Apparently, such payments in kind do not enter into salary calculation as between two different occupations, but they are as important as, if not more than, monetary remuneration. For, they not only make the material or service available but also reduce the inconvenience and discomfort of trying to find them. The non-tangible factor consists of many advantages which add psychological satisfaction and which are described in detail later.

The return to the labourer is influenced by demand and supply factors *as well as by other considerations*—financial and non-financial. As the U. S. A. President's Committee on administrative management said, "Government is a human institution . . . It is human throughout; it rests not only on formal management, skill and numbers, but even more on attitudes, enthusiasm and loyalty. It is

certainly not a machine which can be taken apart, redesigned and put together again on the basis of mechanical law..... Its reorganisation is a human task and must be approached as a problem of morale and personnel fully as much as a task of logic and management.”¹

The demand for labour that is employed by government is essentially aggregate in character i.e. made up of the demands of the different groups of uses to which it could be put. In some cases it is derived demand and in others it is direct. It is always, however, composite made up of three important elements: (a) The state is only one of these employing salaried people since businesses and private people also employ to an appreciable extent workers on a wage basis. (b) The would-be employer could take up independent professions such as those of doctors, lawyers, accountants, etc. open to him. (c) Finally, a man might neither accept a salaried job nor take up an independent profession but enter into business and himself become an employer. Thus, the composite demand for labour in a community is made up of salaried employment, independent profes-

1. Quoted by Josiah Stamp : The administrator and a planned economy (*Public Administration* 1938, P. 9)

sions and business openings. These are rival or competitive demands relatively to one another. "They are compounded into the total demand that comes off the supply in just the same way as the partial demands of several classes of society for a finished commodity are aggregated, or compounded together into the total demand for it.¹ The intensity of the demand for the labour of government employees must, therefore, be considered in terms of the aggregation of rival demand.

This refers to the employment of labour on a wage basis. Not only do governments employ on such a basis but **Salaried employment** every private organisation from the pettiest shop to the largest production and distribution unit must necessarily engage labour of various grades in various administrative capacities as clerks, accountants, advisers and engineers. In fact, every private organisation is structurally a little government of its own and in this respect gives rise to a rival demand identical with the state needs. Referring to the rewards given by commercial houses to exceptional men as "out

1. Marshall : *Principles of Economics* PP. 387-388.

of all proportion to those attainable in government service," the Lee Commission observed¹ "The disparity of remuneration as between a commercial and an official career has become so conspicuous and so discouraging to Civil Servants, that we feel something should be done without delay to restore contentment." The degree of disparity is evident below: The head of the entire British Civil Service gets £ 3,500 a year whereas the Chairman of the Central Electricity Board is paid £ 7,000 and the Chairman and Vice-Chairman of the London Passenger Transport Board get £ 12,500 and £ 10,000 respectively.²

The extent of the demand for labour from this source—both government and private—depends on many indeterminable factors. There are first of all, the number of functions or departments and the structure of their administration. The more democratic and advanced the government, the more numerous tend to be its functions and the more complex the administration. Similarly, the larger the busi-

1. *Op. cit.* para 48

2. Herman Finer: *The Personnel of the semi-public services* (Robson, *op-cit* pp. 131, 154 and 162)

ness unit, the more the number of people employed and the greater the demand for the service of labour and, therefore, the keener the competition between industry and government. In U.S.A. salary scale is somewhat higher than in most European countries, but compared to the upper salary ranges in private employment, the government scale is penurious. "The upper limits," writes Kingsley,¹ "are too low to enable the state to compete equably with private employers in an expanding labour market. One result is to place the public service in the position of a training agency for private employers. When men reach the top there is a tendency for them to leave the service for the greater reward of private employment." In France, the public servant is similarly underpaid.

A second factor is the degree of efficiency that is demanded of the employees. High degree of efficiency implies a reduction in numbers needed for a particular job and, consequently, a reduced demand for labour. Ordinarily, high efficiency is generally insisted upon

1. J. P. Kingsley—Some Aspects of the American Public Service (*Public Administration* 1939, P. 193)

by private employers, while there is a definitely lower level expected and prevailing in government departments. This would mean that in terms of numbers the demand from the government would be larger. A third factor influencing salaried employment consists in the historical and environmental conditions. The number of departments and of employees in most governments is considerably affected by the prevailing structure and not always by the necessity for them. This is largely because financial and business considerations are not paramount in the routine running of a government. A business always keeps its eye upon its profit and loss account, and, therefore, one of the main concerns of its head is to prevent waste, reduce cost and increase output. From this would follow that cost and efficiency factors, more than historical and traditional considerations, would determine the strength of the personnel in a firm.

A second constituent of composite demand is the independent professions. A medical man, for instance, has the choice of accepting employment in government or in private service, or of carrying on his profession independently as

Independent
professions

a private practitioner. Similarly, practically every skilled and partially skilled labourer has the choice. A lawyer, an auditor, a carpenter, a steno-typist and in fact, even a day labourer can prefer to work on his own instead of becoming a wage earner. In advanced western countries, especially Great Britain and the United States of America, the number of people who follow such independent professions is larger than those in corresponding government employment. This tendency has already appeared and is making rapid headway in our own country, and we see to-day a number of private medical practitioners, steno-typists and others who were a rarity hardly twenty years ago. In fact, the love of freedom, the lure of a larger income and the scope for greater service to the community are all tending to increase the importance of such professions. In America it is only the novice and the beginner who gets into government service in order to pick up experience and work, so that in the course of eight or ten years he might set up an independent practice of his own.

Of the American Foreign Office organisation, Prof. Norton¹ writes, "In practice, the

1. *Annals* 1924, pp. 55—57

Department must choose between men of long service but no great initiative who are content to remain at the low salaries provided, and young men of ability, with initiative and enthusiasm who will later take up to business. . . . As a result, the higher staff of the State Department, instead of being a group of mature men of long training and experience who are capable of giving substance and continuity to the foreign policy of the United States, becomes a sort of school for promising young men, giving a training which is invaluable to them in their later careers but the advantage of which is all too soon lost to the government."

The opportunities for such independent professions vary in different environments and are influenced by heterogeneous factors. First, they depend on government provision for some of these services; for instance, if there are, as in India, free hospitals or, if, as in Russia, most of social security and other services are free, then the scope for independent professions is reduced. If free legal aid is available to the citizens, as is proposed in some of the Indian provinces, the lawyer's trade does not open out great possibilities. If free concerts are provided by the state, then, music as a profession loses

much of its attraction. A second factor is the ability to pay for such services. One reason why independent professions are prosperous in Great Britain and America is that people are wealthy and can afford to consult a "Harley Street" specialist. A private practitioner in any profession is definitely more efficient since it is only greater efficiency and attention that can succeed in the open market than the average government practitioner can give. But, it is equally true that the former's charges are higher than what the service might cost in a government department, and it is only when a community can afford to pay, that independent professions could prosper. A third factor is education and the consequent realisation of the value of time saved and better service available with the private practitioner. On the whole, however, independent professions are gradually becoming a very serious rival to government for the demand of the labour of most skilled workers.

These comprise the opportunities for taking to industrial and commercial activities as entrepreneurs. Most workers learn a trade in order to earn a living and the lure of making big money in business is always present. This

is specially important in countries of low industrial development but vast industrial possibilities like India and China. In **Business openings**¹ old and highly developed countries like Great Britain and America big business has established itself and the scope for new talent and enterprise is definitely limited by the prevailing competition and power of monopoly and the limited availability of resources. But in industrially young countries with unlimited resources and vast potentialities, business openings are plentiful: The tendency of more people, especially of the educated classes, entering business might be clearly noticed in India to-day. All over the world industry has acquired a new respectability. In the United States of America, government service is regarded by young men of ability merely as a stepping stone to success in the world outside. "In the higher positions it

1. In France the industrial north supplies less than 40 per cent of the civil servants, although the population of this area is larger than that of the south. Nearly two thirds of the public servants come from south of the Loire, partly because the southerners are more gifted for examinations and also partly because being less industrialised, the south does not offer so many outlets for private initiative. (L. M. E. Roche—The Public Servant in France. *Public Administration* 1938, P. 28)

is practically true to say that nearly all the best officials enter the service in the expectation of acquiring a technical education and then leaving for private practice.”¹ Recently, Secretary Morgenthau of the American Treasury said,² “Among these are men who receive their early training from the government and who use the skill they acquired in that service against the younger men who take their place. The Government then becomes a training goal for many of its opponents.” In fact, the shift from government employment to business and trade has been marked. This offers a third important part of the composite demand for labour.

All these constitute rival occupations competing for a limited supply of the labour force. In a free market a considerable degree of mobility between these alternatives is possible. Potential mobility is the ultimate sanction for the inter-relation of wage rates. The movement of certain rates together becomes a matter of custom. When labour begins to shift from one alternative to another the process will go on,

1. *Quarterly Journal of Economics*, 1921. P. 363-98

2. *American Economic Review*, 1937, p. 698.

and slowly the original labour force will contract and the original places filled by less efficient men. The possibility of exploitation depends upon the ease with which men can move and from the extent to which they and their employers consider the future or look only to the present. The more difficult men find it to change their employment and the less experience they possess on which to forecast the future, the more opportunity for exploitation there will be. Thus, in early ages when communication was bad and repressive enactments restrained, the mobility of labour the possibilities of exploitation were considerable and this is largely true even to-day of the more backward countries but with the rise of industrialism communications have improved and impediments to mobility fewer. In the first stages of industrialisation improved mobility may conceivably be offset by lack of experience of the conditions of an unfamiliar employment but at the most this can be only a passing phase. The difficulties of movement from trade to trade may have increased because of the increased specialisation, but large-scale production has toned down even this. So long as there is potential competition, exploitation of skilled

employees is so likely to drive them away to a rival that it is wise for the employer to go some distance to avoid the consequences of shifting.

The movement may be by an actual transfer of adult workers or by a deflection of the supply of juveniles. In normal times the latter is probably the principal way of adjustment. Transfer of adult workers is fairly easy in less skilled trades where the period required for a new man to work up to full efficiency is short. Even in skilled trades grouping is possible and within such a group, the required skill has much in common. Although shifting to another trade may mean the forfeiture of some elements of special acquired skill, there are still other elements which would be useful, so that the new trade can more quickly be learnt. Further, transference from a skilled to a less skilled one is always possible.¹

The alternative occupations, however, are not completely overlapping or rival. In fact, the composite demand for labour is imperfectly competitive so that mobility between occupations is limited by three other factors : (1) *The*

1. Hicks, *op. cit.* pp. 77—78.

nature of occupations. While a shift from government employment to private employment is easy, a change-over from a salaried employment to independent professions or business openings is not practicable in all occupations. Some of them which belong to the unskilled variety and some of the skilled type consisting essentially in supervising duties, cannot become independent occupations but must always be avenues of employment. (2) Secondly, the *nature of men* restricts movement. The qualities needed in an employee are different from those needed in an independent profession or for success in business. Initiative, risk-taking and ability to get on with customers and employees are essential to independent professions and business and not so in a salaried place. It is not everybody that possesses these qualities. Technically a man may have the ability but in other respects he may be unable to capitalise it. (3) Thirdly, there is the *time lag* in such shifting. A certain amount of time is required for readjusting one's outlook from employment to an independent occupation, and this time lag varies with professions, environments and the men taking to them. Consequently, mobility is limited and competition for these rival

demands is not unlimited.

THE SUPPLY FACTOR

As important as demand is the supply aspect of labour needed by government. The quantity of labour in terms of population is not so important as the cost of training. Supply price can be analysed into three distinct but equally important elements—(1) *The basic factor* or the cost of initial training of the employee. Every employee, especially of the skilled variety, has to incur expenditure in the shape of educating and training himself, particularly before he is fit for the post. This aspect of supply price, which may be termed the *initial cost*, is basic in the sense that it has already been incurred and forms a primary consideration for the labourer when offering his services. It, however, is static in so far as the cost is ascertainable, has already been incurred and does not and cannot vary after taking up a job. It is, however, affected by the quality and period of training as well as the geographical factor viz. the place of education and, therefore, differs in different groups of service. This cost forms one part of the

minimum supply price. Except in short periods, the minimum necessary to obtain that efficiency must be paid in the long run, and, thus, may be regarded as one aspect of the prime cost of labour.

(2) *The physical factor* as represented by the cost of living of the labourer and his dependents. This aspect of supply price which begins *after the person joins service* may be regarded as the *running or maintenance cost* and is essentially current. It is also dynamic and variable in so far as costs and standards of living change and correspondingly influence the maintenance cost. It is, however, an equally, if not more, important part of the prime supply price. For, in the long run, just as the static, basic initial cost of training must be paid, so the dynamic, physical running cost represented by the expenses of living must also be paid by the employer. It may be possible that, in the short period or because of economic and governmental compulsion, the labourer might accept less than this supply price, but either on account of his own action through combinations or of purely economic factors in the shape of opportunities for shifting or even

because of the interference of an enlightened government these two types of prime cost must be paid. Like the initial cost, the running cost also differs in different groups, areas and at different times.

(3) *The efficiency factor or improvement cost.*

One feature of efficiency is progress. Advancement in the technique of work and picking it up by the employee are the features of improvement cost. Such improvement involves further progress. Such improvement involves further training and, therefore, expenditure. If stagnation of the individual as well as of the employer is to be avoided frequent investment on further training during the course of the employee's service is necessary. Such cost may be compared to the replacement of old by improved machinery,—only in the case of the labourer he will have to acquire more experience. This cost is essentially a future item and its quantum cannot be anticipated. In fact, skilled labourers, particularly of the C and D groups mentioned below, save a part of their wages as necessary for increasing their efficiency.

Although the supply price of government employees comprises the initial, maintenance

and improvement costs and has ordinarily to be paid for in the shape of remuneration given, the importance of these items can largely be reduced and, therefore, the compensation given proportionately brought down if the state incurs indirect expenditure to balance a portion of these costs. Thus, if free education and training are made available, and to the extent they are available, initial cost can be reduced. No doubt, free training also means public expenditure but in a different form, benefitting not only the government employing the trainees but also private employers, as well as alternative occupations such as independent professions and business openings. The state would, thus, be paying for the advantage of its rivals. Although apparently free training involves more proportionate cost to the government for each employee, the extent of such facility depends upon more important social policies. Therefore, the more of free education in a community the lower will be the supply price of labour. Secondly, the running cost of living can be reduced by controlling prices. Here, again, the benefits of such action are enjoyed not only by the state as an employer

How to reduce the
cost element

but by everybody in the community. Only while free education involves direct expenditure, control of the maintenance cost through prices involves the execution of a policy, rather than incurring of much expense, although such control might have indirect and important economic repercussions. Thirdly, improvement cost can largely be reduced by the government offering facilities for training, for example, by sending out its employees on deputations. Here, again, the government would have to incur expenditure, though it would apparently pay less in the shape of salaries.

The supply price of public service, thus, comprises the basic, physical and efficiency factors all of which must be included in the reward for labour although the form in which payment is made may be direct, that is, in the shape of salaries, or indirect in the form of government expenditure in other ways.

OTHER ECONOMIC CONSIDERATIONS

In addition to the demand and supply factors some other considerations which are financial in outlook influence salaries. The retirement laws and pensions or provident funds are important. "The services, and particu-

Pensions

larly the married officers," remarked the Royal Commission on the Superior Civil Services in India,¹ "regard the adequacy of their pensions as no less important than the adequacy of their pay."

The pension system has a broad economic and social basis. It is, no doubt, needed in the interests of humanity and economy, but it is equally important for efficiency and contentment of the staff. The nature of pensions has been disputed by the State and by the Servant. In some countries a pension is regarded as a *right* of the employee, while in others as *ex gratia*. In Great Britain, for instance, an Act of 1834 made it clear that retiring allowances were entirely *ex gratia* and carried no statutory right to continuance. The efforts of the public servants to have them defined as deferred pay were defeated in 1898, 1906 and later. In France, however, pensions are a *right* of the employee. The employer's attitude arises from the necessity to have a hold on the loyalty and discipline of the official, while the latter views it from the economic standpoint of the prevailing rates of pay and of his own freedom to

1. *Report*, Para 66.

shift. The question should also be considered from the angle of an enlightened community in which not only a public employee but *every citizen* has a right to a pension from the state. In Beveridge's words¹ "Any Plan of Social Security worthy of its name must ensure that, every citizen, fulfilling during his working life the obligation of service according to his powers, can *claim as of right* when he is past work an income adequate to maintain him..... It follows that the plan must include provision of pensions upto subsistence level, given as of right to people who are past work." The current official attitude, however, is of unimaginative competitive capitalism.

Not only are pensions a right but they are, after all, in the nature of deferred pay. There is no fundamental difference between the provident fund and the pension schemes excepting that one is paid in a lumpsum and the other periodically. In the former, a certain percentage is deducted from the employee's salary while the state contributes its share, both of which are returned with interest when the employee retires from service. Sometimes

1. *Report*, Para 289.

deductions are made from salaries towards pension or annuity payments. For instance, in U.S.A. the employee's contribution is $3\frac{1}{2}$ per cent of salary and in France 6 per cent. Until 1919, the Indian Civil Service contributed 4 per cent towards pensions. Generally, as in India, such deductions are apparently not effected, so that it looks as though the state is contributing the whole of the pension. As the British Civil Service employees stated "The effect of the system of pensions maintained entirely at government expense was to depress salaries by an amount far in excess of the benefit of the pension. Hence such a system, although non-contributory in its appearance, was in reality a contributory system."¹

Such a provision after retirement has very important effects upon the worker's efficiency, his material well-being and his character. The employee can look up to some sort of economic security in his old age and can hope to enjoy a well earned rest. A good pension scheme, therefore, offers a great attraction in any service. In some governments, as in America, the maximum pension is fixed and the age of

1. Willoughby, *op. cit.* p. 376.

retirement varies, though the actual pension that anybody can draw depends upon length of service, average salary, minimum service, etc. In Germany pensions amounted upto 57 per cent of the pay and some of the allowances,¹ whereas in France the scale was very low not exceeding 5000 francs (£ 350).² In the United States of America, the *average* annuity was in 1939-£ 199, the highest being £ 318 and the lowest £ 27;³ in the Indian Civil Service twenty-five years service entitled the official to a minimum of £ 1000.⁴ The pension scheme is not so common in private employment and may be regarded as the peculiar feature of government service. This would mean that public employment has a greater draw than the rival alternatives and consequently, other things being equal, a lower salary would be as attractive.

A second factor affecting salaries is the scope for extra earnings. Just as pensions are

1. Kordt: *The Public Servant in Germany (Public Administration 1939, p. 181)*

2. Roche: *The Public Servant in France (Ibid p. 30)*,

3. Kingsley: *Some aspects of the American Civil Service (Ibid p. 194)*.

4. *Lee Commission Report* para 67,

a feature of public employment, so bonuses are of private service. Private employers, especially prosperous businesses present their servants with an annual bonus which is equivalent to a higher rate of wage. This practice also holds good in some governments; e.g. in France, and the amount varies with the post, length of service, salary drawn, etc., but it is not a characteristic feature of public service. In this respect private employers definitely score over governments. According to the Lee Commission,¹ a large number of commercial houses in India give their employees bonuses in addition to pay and retiring bonuses in addition to pensions; in some cases pay and pension are given free of incometax. Further, a number of progressive businesses give their servants cultural salaries, that is, a wage that would leave a sufficient margin over and above necessities for a standard of living permitting cultural development. This type of employer who husbands his labour power is increasing in number. Private agencies, further, take considerable responsibility for train-

1. *Ibid* para 68.

ing and improving the quality of their employees by giving them facilities to learn newer methods. They, thus, provide a considerable competitive field for the promotion of workers as they improve in training and experience. Every opportunity for training is equivalent to a monetary reward. Such an imaginative outlook is generally absent in public service, which is based on routine and red-tapism.

Moreover, overtime is a common characteristic of private business and this means that an employee is given an opportunity to put in more time and benefit thereby. Generally, overtime carries a higher wage than regular work. Overtime with payment is an unknown feature in government employment, while sometimes overwork without payment characterises state service. The natural effect of this is for labour to move to private employment where efficiency and work are recognised and paid for.

Still another factor in favour of government's rivals in the labour market is salary adjustment to cost of living.

Cost of living

Prices and cost of living generally vary at different times and especially in emergencies, such as, since 1939, and

this would affect the real wages of the employees. In private service a quick and generous adjustment is made to such changes so that the worker does not undergo unnecessary and total hardship. Governments, on the other hand, move not only slowly but with limited imagination as is evident from the dearness allowances in India since 1939.¹ The adoption of a sliding scale relating salaries to cost of living would make employment fairer and more attractive both when prices rise and when they fall. A scheme for such adjustment is suggested later. We might note here, however, that a more generous treatment of the employees, especially in times of high prices, or even the assurance that such a treatment would be meted out whenever necessary, would make employment more attractive, enabling salaries to be lowered without danger in normal times. After the First World War, the failure of French salaries to keep pace with the depreciation of the franc, drove away many of the class, which in former days would have entered the

1. Of a similar unimaginative attitude after the First World War, the Lee Commission remarked that the steadily deteriorating financial condition produced in the services feelings of anxiety and discontent (*Report* para 10)

diplomatic service, to seek other fields of endeavour.¹

Another consideration is the principle of "equal pay for equal work." The reward a person gets is no doubt important in itself, but it becomes more so when compared to what another gets. If there is contrast between two individuals doing the same kind of work but paid differently, efficiency, harmony and loyalty would be undermined. As H. K. Norton puts it² with reference to America, "the dissatisfaction caused by these inequalities of pay is a source of constant irritation and places serious difficulties in the way of securing a smoothly working administrative organisation."

There is also the element of spread or of variation between extremes of payment within the department or in the state.

Salary spread It is a common feature in India for the head of the administration to get two to three hundred times as much as those in the lowest rung of the ladder. In contrast, a striking characteristic of U. S. A.

1. Vide H. K. Norton: Foreign office organisation (*Annals* 1924, p. 51)

2. *Ibid*, p 54

is the very narrow spread between the lowest and highest salaries in the service. "The government," comments Kingsley,¹ "is paying considerably more than the prevailing wage in the lower brackets and considerably less than the usual outside wage in the upper ones. To some extent this is the result of a conscious social policy." It is doubtful if the difference in ability justifies a large spread, and even if it does, a vast gulf without an opportunity for an able employee to reach the top reduces efficiency. Consequently, a low variation between extremes would make up for a considerable reduction in the reward at the top.

It is, however, insufficient to reduce the variation. It is not so much the starting reward that matters for keeping up efficiency, as the opportunity to improve one's position if he proves himself useful and capable. One of the essentials of a compensation plan is the adoption of a graduated scale depending on efficiency, experience and length of service. There must always be a carrot in front of the donkey's nose to egg him on to better work ;

1. *Op. cit.* P. 193

otherwise, stagnation would set in, no matter how high the initial salary is. This principle is fully made use of in private employment, especially where it is a progressive and modern one like the Tatas or Ford. An employee must be sure that his merit will not go unrecognised and that he could rise to the highest paid position although he has initially accepted a low start. The importance of promotional policy in a compensation plan is discussed in detail later in relation to the structure of such a compensation plan.

Two considerations, however, which play their part in the practical determination of the reward are the prevailing rates of pay and the national income of the community. After all, no state starts *de novo*. It grows up and has to adjust itself to an existing environment, and the ideas of reform that the people in power might have, can only be given effect to in stages, for any sudden change in the scale of salaries would be unfair either to the state or to the employees who have accepted services on implied assurances. It is, therefore, not only inequitable to them if a lower scale is introduced but it might also involve a land-

slide by their movement *en masse* to rival employments. This would mean that the prevailing rates of remuneration have their influence on salary determination.

As pointed out below, the per capita income has an important bearing on salaries.

Broadly speaking, a richer country *can afford to pay* a higher salary. It also *has to pay* a higher rate because the opportunities for alternative occupations and the intensity of rival demands are more effective and numerous. Moreover, in a rich country the supply price consisting of costs of training, of living, etc. would also be high and, therefore, the point of equilibrium would necessarily be at a high level.

NON-FINANCIAL FACTORS :

The statement "man does not live by bread alone" holds true of salary determination, for incentives to work are neither necessarily nor even largely financial in character.

While reward is an important factor for drawing out work, efficiency and enthusiasm, the same purpose can be achieved to a considerable

extent by non-economic incentives. The *dignity of a profession and social prestige* may compensate for a smaller salary. In this respect the state has a definite advantage over a private agency and it is an advantage that the state would do well to make the most of. The Stakhonovite movement in Russia is largely based on the "social worth of the work" concept. Generally everywhere, and especially in backward countries, like our own, a certain respectability attaches to government service. In Great Britain, for instance, the diplomatic service is taken up by sons of the aristocracy who care little for salary; in Germany and Italy, to be in government service carried with it satisfaction quite above the mere monetary compensation; and it was the case in France also till recently. In America, however, little prestige attaches to government service¹ but, although conditions elsewhere are wheeling towards the American tradition, a certain amount of prestige generally goes with government employment even to-day. Industry, of course, is acquiring a new respectability and has accordingly lessened the pressure upon the

1. Kingsley *op. cit.* p. 191.

other professions and increased mobility of labour. Professional status is a matter of great importance for the self-respect of the worker and for development within his own field of activity. But it is a difficult thing even to define in non-government sphere. An effective means, therefore, of compensating a lower reward is to dignify a position. This is generally done by the conferment of honours and titles. Thus, for instance, in the United Kingdom about a third of the higher officials of the foreign office receive Knighthoods; so also in Italy, while in France the Legion of Honour was bestowed on members of this corps after about twenty years of service.¹ This has resulted in comparatively lower salaries prevailing in these countries, while in the United States of America where there is no such mark of distinction and all officers are equal in rank, the attraction of higher income in alternative occupations is very pronounced. As an American writer put it², "The Under-Secretary of State in the United States of America is officially a person of no more distinction than the junior assistant secretary in the least important of the govern-

1. Roche: *op. cit.* p. 82.

2. *Annals* 1924.

ment departments. This may be justified as an application of democratic theory, but in practice it does not work.....If we are able to make our democracy a practical thing we must devote our attention to equality of opportunity and not to limitation of achievement."

The balancing effect of power and position as against salary is illustrated by the American Under Secretary of State for Foreign Affairs who gets actually less (8,000 dollars a year) than his permanent paid assistants (getting 9,000 dollars). In fact, the Under Secretary gets no more than what his own legal or economic adviser gets or even the first and second division chiefs. All the same, he is a superior officer having more prestige, power and responsibility. Another aspect of prestige consists in the number of assistants that the officer might have. An office can be clothed with dignity and prestige in dozen different ways such as titles, powers, uniforms, a larger number of people to boss over, etc. In fact, this element can be exploited more fully as we move up the groups, for, after a minimum level of living including comforts and luxury is provided for, an average employee would more than be satisfied if his vanity is tickled.

In addition to prestige, *conditions of work*, apart from salaries, count a great deal. Fewer hours and greater leisure would go a long way in many classes of employment. Holidays would be valued higher than remuneration, for, again, above a minimum level of comfort the scale of valuations and preferences as between money and non-monetary factors would tilt in favour of the latter. Cultural value would grow in importance, so that such opportunities would be appreciated better than mere increase in salaries. Contrast a University employee with one in the Revenue or Police Departments. The former gets a lower salary but greater leisure and opportunity for cultural development; the latter has less of leisure and opportunity but more of remuneration. Another aspect of work is between fixed and fluctuating hours. Fixed and regular hours of work as in a government department afford more scope for a regulated life than fluctuating hours as found in a factory. For instance, the system of shifts whereby an individual has to work for a number of hours in successive stages during all parts of the day and night can only be balanced by a larger remuneration.

Similar to the above, is the *opportunity for chalking out a career*. Where an office opens wide opportunities for an individual, as in the case of the Foreign Office in most European countries, salary could be lower. Further, a smaller reward is feasible if greater scope is given for the employee's initiative and expression of his personality.

In addition to these general factors there are some *personal and local influences* which make lower reward practicable.

Personal and local influences

In the case of many people conservatism and local attachment are very strong. This may be due partly to economic reasons and partly to state and local loyalty. In such cases a lower salary at home is preferred to higher reward outside. Speaking of America, Phillip Klein says¹, "While the salaries provided for executives of public welfare departments do not appear to enable them to compete for the best workers in the open market, local considerations, state loyalty and family and personal reasons may combine to overcome the handicap. It does, however, impose a kind of penalty upon those

1. *Annals* 1924, p 284

who are willing to forego higher salaries in order to continue their local service." Among personal factors may be mentioned marital conditions, age, family influences, etc. The extent to which these non-monetary factors make up for financial disadvantage cannot be determined, since conjunctural and personal elements have a large say in such things. In conservative countries like our own, their importance is definitely more than in advanced countries like America and the United Kingdom. But in all places these factors can be exploited by the state.

As a general rule, a distinct difference can be observed between agricultural and industrial communities in the matter of salaries. The latter are definitely higher in industrial communities. This may be traced to the demand and supply factors mentioned earlier. Industrialisation increases national income more than agriculture does. At the same time, the cost of living and the standard of life will be higher, so that not only is the demand keener, because alternative occupations are more plentiful, but the supply price as well as the ability to pay a higher demand price also increases. The in-

Other influences

evitable result is that the level of salaries will be higher in an industrial country as in Great Britain and Germany. We might, therefore, generalise that with greater industrialisation the tendency for salaries is to increase. This may be regarded as a factor influencing flexibility on account of dynamic factors.

THE NEW OUTLOOK

So far the problem has been analysed from the economic point of view, but, as stated earlier, the human outlook is equally essential in applying economic analysis to social problems. This standpoint is growing in importance relegating the purely economic viewpoint to the nineteenth century category. It was the insistence on pure science that led to the revolt against the Classical School.¹ The latter half of the nineteenth century and the first half of the present offer numerous instances of interference with economic laws which are no longer regarded as inexorable, unalterable and universal, partly because of the adolescence of Economic Science and partly because of a number of immeasurable social and conjunctural factors. At best, these laws can indicate the

1. *Vide* M. H. Gopal: The Return to Classicism and after (*Indian Journal of Economics*, 1940, pp 405 and ff)

tendency and offer a rough guidance, and modifying them in wider social interests is not only possible but has become common as in National Planning, Social Security, minimum wage, etc.

These remarks must be borne in mind in judging of the insistence by the administrative authorities on the sanctity of the market and of the law of Demand and Supply. Thus, the Anderson Committee of 1923 held that a state should pay only what is necessary to recruit and retain an efficient staff and that lining up with the industrial employer was necessary. The Tomlin Enquiry recommended that Civil Service rates of pay should reflect the long term trend in wage levels and the economic condition of the country. When in 1933 the British Civil Services suggested a minimum wage, the Royal Commission rejected the claim on the ground that it would result in payment of remuneration considerably in excess of that received by persons in comparable outside employment. The Tomlin Report discarded the theory of the state as a model employer, "as one which afforded no practical guidance in fixing wages or the responsibility of the state towards its employees."

This insistence upon the economic side only, particularly the Law of Demand and Supply, reflects the Classical attitude which, in Keynes' words,¹ "dominates the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past." But, as he adds, "the postulates of the Classical theory are applicable to a special case only." "In the field of economic and political philosophy there are not many who are influenced by new theories after they are 25 or 30 years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest."²

It is the new, wider social philosophy that has accepted the minimum wage principle in theory and applied it widely in practice in advanced countries. "Its avowed purpose is to secure a living wage and to prevent employment at less than the minimum level."³ The state may prescribe a flat rate of pay as a minimum or proscribe the payment of wages less than sufficient to maintain a minimum standard

1. *General Theory* P. 3

2. *Ibid* PP. 383-384

3. S. H. Patterson : *Social Aspects of Industry*, P. 247

of living. An Australian court defined¹ the minimum pay as the sum to cover "the normal needs of the average employee regarded as a human being living in a civilised community." For the state to fix wages instead of allowing them to be determined by competitive forces, is a definite interference with the economic Law of Demand and Supply.²

Originating in Australasia in the conciliation boards of New Zealand in 1884, state fixation of wages spread from particular sweated industries to industries in general³ under the Federal Minimum Wage and Maximum Hour Act of 1941 in U. S. A. Advanced countries like New Zealand, Australia, Great Britain and America accepted the principle but not without a struggle. For instance, it was the Supreme Court decision in 1937 in U. S. A. upholding the legality of the minimum wage law of the State of Washington,—after such laws had been declared earlier unconstitutional and accepted only after Roosevelt packed the Supreme Court

1. *Ibid* P. 250

2. Compare Douglas: *The Theory of Wages*, P; 92

3. For a discussion on this point, *Vide* J. W. F. Rowe: *Wages in Theory and Practice* pp, 199 & ff; A. C. Pigou: *Economics of Welfare*, pp. 506 & ff.

with his sympathisers—that many American States adopted the principle and that the Roosevelt administration made widespread use of it.¹ The fear of the orthodox economists that such interference with economic laws could not be sustained long and would result in increased cost, has been falsified since “the additional labour cost has not been as great as expected because of the increased productivity of better workers.”²

The minimum wage concept involves a human rather than a pecuniary analysis; it is more social than economic. In fact, it is a synthesis between economic science and social welfare. Similarly, in the determination of public salaries, the tools of economic analysis discussed in the preceding pages must be applied to a changed environment with a definite objective, namely, optimisation of social welfare. “May we not outgrow the belief that poverty is necessary?” said Marshall nearly half a century ago. The modern state has accepted the responsibility of freeing its citizens from want. Economic analysis must be utilised to help this achievement. Accordingly, while

1. Patterson, *op. cit.* pp. 249 and ff.

2. *Ibid* p. 252

the law of demand and supply *influences* public salaries, it must be subordinate to the new social purpose and become the handmaid of ethics and the servant of progress.

IV

THE PRINCIPLE OF ECONOMY

More important than Efficiency and Compensation is the principle of Economy which looks at the whole problem from the point of view of the community for whose benefit and at whose cost the administration is maintained. It considers the ultimate effect on social welfare of a level of compensation in terms of efficiency. What is the net return to the community from the expenditure? That is the question. In fact, it is the attitude of every businessman when he either employs or dismisses an employée. The net return is what matters to an employer. He views this return in monetary terms. If the employment of an additional labourer or the payment of a higher wage means more profit, the worker is employed. To the entrepreneur, therefore, economy is judged in terms of marginal productivity. The same concept slightly modified is true of society. The net return is not in terms of profit or even of money but in terms of the welfare of the community.

If a particular level of salaries increases efficiency of the public servant in such a way that social welfare is maximised, then it is economy from the point of view of the community.

Optimisation of
Social Welfare

This, in fact, is an application of the principle of optimum social welfare or maximum social advantage which underlies public finance. In both private calculation and public finance the doctrine of maximum satisfaction is utilised to determine where the point of maximum economy in expending funds is reached, the fundamental difference, however, being that the businessman interprets the doctrine in its narrower sense while the state applies it in its broader interpretation. The principle of Economy as applied to the salaries question might, thus, be stated as the optimisation of social welfare when a particular level of salaries is equated with a particular degree of efficiency and judged by its repercussions upon society as a whole, or, as Josiah Stamp put it in another connection,¹ "Government schemes are highly integrated with social effects and due regard

1. The Administrator and a Planned Society (*Public Administration* 1938, p. 3)

has to be paid to all repercussions and reactions on economic society."

Four important aspects of economy may be distinguished, only one of which holds good in the case of a business concern.

Economy of high wages

The economy of high wages:

High or low reward is relative to efficiency. If higher salaries lead to fewer people being employed for doing the same work, that is, if individual efficiency increases, then the total cost or expenditure relatively decreases although the individual rate of payment is higher. Thus, in terms of employees the cost would be more, but in terms of efficiency or output it would be less. A businessman calculates cost in terms of output and to some extent the community's point of view should be similar. Other things being equal, it is definitely more economical to society to employ more efficient people and pay them more wages as it results in fewer jobs.

This attitude looks at welfare only for the business or money point of view. It overlooks

Transfer and exhaustive expenditure

the repercussions of certain types of employment. The employment of foreigners, however high their efficiency, is,

what Pigou calls, real and exhaustive expenditure. Apart from the psychological reactions the presence of foreigners in responsible positions will evoke in the native people, there is an export of the real resources of the community abroad. No doubt, the service rendered might have been equal to the salary paid, but the earnings are, to some extent, transferred outside so that society loses its real resources. On the other hand, if nationals are employed, there is merely a transfer expenditure, their earnings being spent within the country so that there is no exhaustion of real resources.

It is this fundamental difference between the employment of the foreigner and the native that has been at the back of criticisms of civil expenditure in India. It is, no doubt, true that, for various reasons, the foreigner had to be and is being paid very high salaries as in the case of the Central Services or the British element in the Indian army. But the economic centre of the problem has really been that this payment is an exhaustive expenditure, and, under the existing circumstances, leads to a drain of the wealth of the community. Thus, the second aspect of economy relates to the domicile of the employees in a community, the employment of

foreigners being generally a burden on the community involving a reduction in economic welfare.

The third influence on economy consists of *the direction of expenditure*, irrespective of whether the foreigner or the native is employed. Higher salaries lead to increasing expenditure on higher grades of comforts and luxuries. The demand for goods takes a different direction when the salary level is high in certain cases with extraordinarily low salaries in others. Naturally, the kind of goods produced or imported is directed by the nature of the demand. Capital, labour and enterprise are directed to the production of the higher type of goods satisfying the more expensive consumer, often to the neglect of these productive resources being employed to satisfy the demand for necessities and lower grade comforts. Similarly, the direction and kind of imports and, therefore, the nature of foreign trade may be affected by the direction of expenditure. This can be observed in the investment of resources and the course of foreign trade in our country to-day. The impact of the salary level on this aspect of the country's economy

Direction of
expenditure

cannot be denied although the extent and measurement of the effects cannot be measured.

Still another aspect of economy consists in the *repercussions* of the low salary level on the *functions of the government and*

Broader effects *the physical and moral health of the people.* One consequence

in India has been the utter inability of the people to get sufficient nourishment, education, medical relief and similar essentials of a minimum standard of life. The dictum "The cause of the destruction of the poor is their poverty" holds true of low salaried employees. It becomes, therefore, the duty of the state especially in poorer countries to undertake public functions to make good these deficiencies so that expenditure on education, medical relief and other social security schemes becomes inevitable. A considerable part of this expenditure can be avoided if at least the government employees are paid enough to satisfy the minimum level of subsistence. Even private businesses have realised the importance of good health, physique and education in their employees and provide facilities for improving them; this attitude is the result partly of a generous outlook and partly of the realisation that the employer's

own interest demands that his workers should be capable of working efficiently, that is, the economy of the unit demands such expenditure. Advanced employers like Henry Ford, Lever Brothers and Cadburrys have provided better wages because they are economical.

Thus, Economy as a principle in salary determination comprises four distinct elements (1) the economy of high wages, (2) the domicile of the employees, (3) the direction of expenditure and (4) the broader effects on government finance. All these may be regarded as the repercussions of the salary level on the economic welfare of the community. In the long run, it is the standpoint of economy that should be considered, although compensation might be important in the very short period, with perhaps efficiency holding its own in the short period,

As Sir Gwilyn Gillon put it¹ "The balance-sheets of public authorities have to be made up in flesh and blood as well as in money—in security and health, ability and character, individual and communal well-being, and these for future generations as well as the

1. Public Services—what value? (*Public Administration*, 1939 p. 348.)

present." Not a balance easy to prepare; on the contrary desperately difficult because of our complicated society and the recondite consequences; consequences all the harder and at the same time all the more necessary to discover because they may penetrate deep into the foundations of individual and communal vigour.

V

THE STRUCTURE OF A COMPENSATION PLAN

The discussion so far has related to the general principles underlying compensation. We might attempt below the construction of a more definite set of ideas applicable to salary determination in all environments.

BASIC PAY :

Compensation has to be considered from four standpoints—basic pay, adjustments to cost of living, allowances and promotional policy. In general, **Freedom from want** basic pay, which forms the foundation of a compensation plan, relates either to key classes or to all classes of jobs. One of the objectives of any modern state is to bring about freedom from want “by ensuring to everybody in the country adequate nutritive food, sufficient clothing, a decent shelter and freedom from disease and ignorance.”¹ This is conditioned by the interdependence between the employee’s income and the standard of basic needs. While every citizen must enjoy

1. *Peoples’ Plan*, p. 7,

this freedom, the state's primary responsibility is to keep its servants above want. Thus, securing a minimum standard of living becomes the first plank in any compensation plan affecting basic pay.

The minimum, no doubt, varies in different countries and, to a lesser extent, in different classes. But its importance in the determination of basic pay can be illustrated with reference to India. According to the Bombay Plan, the minimum requirement is about 2800 calories per day per adult¹ and at pre-war prices the cost would be approximately Rs. 65 per annum for an adult.² This level has been more or less accepted by others. According to the Gandhian Plan,³ the cost would be about Rs. 60 in rural areas. Dr. Aykroyd,⁴ the nut-

1. See also Radhakamal Mukharjee: *Food Planning for four Hundred Millions* pp. 23-25.

The calorie value of the adult male unit varies considerably. The London Standard uses 2,400 calories (net) for an adult male doing light work; the Bigwood calorie scale is based on 3,100 calories (net) for an adult male performing moderately heavy work, while the American scale is based on 3,000 net calories. *Food Consumption and dietary surveys in the Americas*, by R. M. Woodbury, p. 54. (International Labour Office, 1942.)

2. *Bombay Plan*, Part I, P. 8.

3. *Gandhian Plan*, p. 58.

4. W. R. Aykroyd: *Nutrition*, P. 18 (Oxford Pamphlets, No. 21.)

rition expert, puts the cost between 4 and 6 rupees per adult per month. Sixty five rupees therefore, may be accepted as the minimum cost of a well-balanced minimum diet. The cost of clothing, housing, health, etc. has been calculated at Rs. 20 per head per year.¹ The cost of small items such as fuel, omitted in the Bombay Plan² may be put down as another Rs. 5 so that, according to the Bombay Plan, the minimum necessary is Rs. 90, while according to the Gandhian Plan it is at least about Rs. 72 per year per adult.³

In parenthesis, we might compare the estimate for a richer country. In Great Britain and at 1938 prices the minimum requirements for an adult man and woman of working age have been estimated by Beveridge⁴ at shillings 19 per week as below:—

1. *Bombay Plan*, P. 20. In para 33, the plan estimates the total required for these items for about 39 crores of people at 800 crores i.e. per capita 20 rupees, which together with the basic food requirement would come to 85 rupees and not 74 as in para 34.

2. *Ibid*, para 33.

3. *Ibid*, P. 58.

4. *Report on Social Insurance and allied services*, paras 222 ff.

		Man	Proportion	Woman	Man & Wife	Child ¹
Food	...	7	36%	6	13/—	/11
Clothing	...	1/6	8%	1/6	3/—	/10 d.
Fuel, light and sundries		2/6	14%	2/6	4/—	/8 d.
Margin	...	1/6	8%	1/6	2/—	
Rent	...	6/6	34%	6/6	10/—	
		19/—	100	18/—	32/—	7/—

On balance, concludes Beveridge,² it seems not worth while to maintain any difference between the rates of single men and single women.

These estimates may be checked in another way, that is, by analysing the percentage of expenditure on different items in family budgets. Towards the end of the nineteenth century Engel estimated the proportion of expenditure on food to income in poor, middle and well-to-do families at 62, 55 and 50 per cent respectively, the balance being spent on non-food items. According to an international enquiry of 1942³, the expenditure on food of the wage-earning class was, for eight countries 51 per cent, though the range of variation was

1. *Ibid* para 228.

2. *Ibid* para 230.

3. Woodbury, *op. cit.* p. 6.

71 per cent in Chile and 30 per cent in Canada. According to 25 recent studies of wage-earning families carried out immediately prior to the Second World War, the proportion spent on food varied from 63.7 per cent in Columbia to 29.5 per cent in New Zealand.¹ This means that in poorer countries and among poorer classes a larger percentage is spent on food.² Sixty per cent, therefore, may be taken as the expenditure on food in poorer families. On this basis, if 65 rupees are needed as the minimum cost of food for adults, the total minimum income for all items would be roughly about Rs. 110.³

A family has, on an average, one wage-earner specially when he is in state employment. It, however, consists of 5 members the father, the mother and three children.⁴ Each child may be regarded as 7 of an adult,⁵ so that

Minimum

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1. *International Labour Review*, June 1932, pp. 814-846.
 2. For the Proportion in a richer country like Great Britain vide Beveridge's calculation quoted above.
 3. Compare B. C. Ghose: *Planning for India*, pp. 23 and pp.
 4. According to Carr-Saunders four children are born in an Indian family, and 2.6 survive *World Population* P. 276.
 5. By using Lurk's co-efficients Dr. Radha Kamal Mukherjee estimates the man value of a child at .7 and of a woman at .83 of an adult man with regard to food requirements. According to Beveridge (*Report*, paras 226 and ff) the minimum for boys and girls is 12/- a week as against 19/- for an adult man. For a boy, girl and two children in a family this would equal two adult men.

the adult number in a family would be 4. At a hundred and ten rupees per adult per year the total family income for freedom from want should amount to Rs. 440. Any payment less than that to any employee would be tantamount to exploitation and sweating of labour by the state itself. This amount, therefore, may be regarded as the basic minimum of any compensation plan for any class. While the actual amount needed for this minimum may vary between different countries, the principle that remuneration should be adequate to secure freedom from want is of primary importance and of universal application.

This minimum bears a definite proportion to the per capita national income. It is accepted on all hands that the present low national income of India, namely, about Rs. 65 per capita does not represent the true level and, therefore, the Bombay Plan, for instance, attempts to increase it in the course of fifteen years to Rs. 135. This amount may be taken as a very reasonable estimate. On this basis the basic salary of any employee should not fall below about three times the national income or about Rs. 35 to 40 a month.¹

1. According to the *Eastern Economist* (25th October 1946,

The maximum basic compensation payable to any employee must bear a particular relation to the minimum. For, while the maximum secures freedom from want, the limitation of the maximum prevents exploitation by those in power. One of the criticisms against the existing salary level in India is the extraordinarily high salary, disproportionate to the national income, and the great salary spread. There is, no doubt, economic, social and psychological justification for significant inequalities in salaries, but not for such large disparities as exist to-day. As Keynes observes in another connection,² it is not necessary for the stimulation of activities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them.

p. 678) the demands of some Indian Employees' Unions varied from Rs. 45 claimed in U. P. to Rs. 125 (80 plus dearness 45) claimed by 25000 skilled and unskilled workers in the C. P. W. D. before the Central Pay Commission. The Journal comments- "Government cannot afford to remunerate its lower grade staff on these standards and will have to revise pay scales on more conservative data i.e. by analysing the standard budgets for the classes of employees concerned and the expected course of the price level." The question is—Is the *standard budget* what is or what should be?

2. *General Theory*, p. 374.

The salary spread and its relation to the national income in some of the advanced countries are indicated in the following statement :

TABLE I
NATIONAL INCOME AND SALARIES

	United Kingdom	Germany	France	U.S.A	South Africa	Canada	India	
							Current ¹	Proposed
1. Per capita National Income ...	£ 95	£ 42	£ 25	£ 155	£ 55	£ 79	Rs. 65	Rs. 185
2. Highest pay	£3500	£1600	£1000	£2500	£1600	£1200	Rs. 2,600	Rs. 1,200
3. Highest in terms of (1)...	37	49	40	16	29	5	480	100 times
4. Highest in terms of (5)...	42	16	14	12.5	11.5	10	210	30 times
5. Lowest pay	£ 85	£ 100	£ 70	£ 200	£ 140	£ 120	Rs. 12 a month	Rs. 40 a month
6. Lowest in terms of (1)...	0.8	2.5	2.0	1.8	2.5	1.5	2.0	3.5

The minimum varies from .8 in Great Britain to 2.5 in Germany. The low proportion in the former country is the consequence of the rigid application of the Law of the Market. Its insufficiency was pointed out by the Services who regarded the real minimum as

1. The maximum *normally* reached in the I. C. S. is taken.

£ 3-10-0 per week or £ 182 a year, which would be about 1.9 times the National Income. The operative range in advanced countries would, thus, be between 1.3 and 2.5 times. As the minimum of subsistence is not entirely dependent upon the national income only but is more or less rigid, the proportion of the minimum would in poorer countries be necessarily higher than in richer ones. As pointed out above, the basic minimum in India works out to about three times. As we move up in the National Income scale, the amount increases but the proportion tends to get reduced.

The maximum salary in advanced countries has been between 12 and 40 times the national income. The low proportion in the United States of America is considered unjustifiably low, with the consequence that good recruitment has not been possible in the higher grades.¹ No doubt, the *amount* paid is larger than in most European countries but compared to the national income it is low. "The government is paying," observes Kingsley,¹ "considerably more than the prevailing wage in the lower brackets and considerably less than the

1. Donald Kingsley *op. cit.* p. 193.

usual outside wage in the upper one. To some extent this is the result of a conscious social policy but the upper limits are now too low to enable the state to compete equably with private employers in an expanding labour market.¹ In the other countries the proportion is about 40 times the National Income. In poorer countries the *amount* may be low but the *proportion* is high. Industrialisation tends to increase the quantum, partly because of rival demands and increased supply price, and partly because of the greater ability of the state to pay. The amount suggested for India namely, 1200 rupees a month, is considerably less than the current level in our country but equal to the French standard, although the proportion to national income is very much higher. This is inevitable because of our low national dividend. Thus, in amount it will be mid-way between France and Germany and in terms of National Income two and a half times as much. In terms of the lowest basic pay, the spread is about 30 times, that is, twice as much as in those countries. If the minimum wage of £ 3½ per week suggested by the British services

1. *Ibid.*

is considered, the spread would be 50 per cent more than in Britain. It must, however, be remembered that the maximum amount, like the minimum, will have to increase as the country becomes richer and the economic forces keener, but not in the same proportion as the growth of national prosperity.

While the national minimum and maximum bear this relationship, different services should have, within these limits,

Salary groups

their own maximum and minimum as determined by the cost

of training representing the supply side and competitive demand from the demand side. A properly classified and standardised personnel system should fix compensation in accordance with the character of responsibilities and duties to be performed and ensure equality of compensation for persons filling positions of the same order. This means that the basis should be compensating the position rather than the individual.

From the side of supply, the cost of training increases progressively as the quality of the personnel required is of a higher order. Training may be classified under five heads: (1) Elementary or basic education and (2) high school

education. While the first one is compulsory for every citizen, the second one is expected to be optional, but, in any reasonably advanced community, both are to be provided free of cost. This aspect of training, therefore, involves no expense and does not affect the supply factor. (4) University education or what is equivalent to it in other branches of life. This extends in its basic aspect to about 4 years. (4) Professional training, extending roughly to about three years induration taken up often after a preliminary university education. Thus, after his high school stage, a medical or an engineering student must put in two years in a university and spend another four or five years in a professional institution—in all 7 years. (5) Advanced training, being a further specialisation in the particular occupation a person has taken up. This roughly extends to about 2 years.¹

Thus, from the standpoint of the supply price, employees can be classified into three grades according to the education and training they have had, while there would be a fourth

1. The higher technical group in the *first two classes* of the German Civil Service demanded 4 years study at a technical college and 8 years preparatory unpaid work. (Kordt: *op. cit.* p. 177.)

class which has had a free basic education. Roughly the cost variation would be: 0, 1, 2, 4 respectively, increasing progressively with increasing efficiency. From the standpoint of efficiency the same four groups would stand out. This classification could follow, with necessary modifications, the non-competitive groups associated with Cairnes who divided labour into (1) automatic manual, (2) automatic mental, (3) responsible manual and (4) responsible mental.

This classification may be compared with the practice in advanced countries. Thus, in Great Britain the *Higher Administrative Service*¹ comprises, higher civil servants concerned with the formation of policy, coordinating and improving government machinery, and with the control and administration of the departments of public service. The *Executive class* is concerned with the critical examination of cases of lesser importance not clearly within the scope of regulations, the direction of small blocks of business and the responsible conduct of important operations. The *Clerical class* does simpler clerical duties and deals with

1. Dale: *The Higher Civil Service*.

cases in accordance with defined regulations or general practice. The *Minor or Manipulative class* comprises the remaining lower public employees.¹ In Germany also there were four service groups—the *Higher Service*, the *Higher Intermediate Service*,—both divided into technical and non-technical branches—the *Intermediate Service* comprising lower rank clerks and the *Lower Grade Service* consisting mainly of manual workers. In the United States of America, too, there are four broad groups.

From the side of demand, the degree of competition in these groups varies. As the cost of training would be small in the first two groups, increasing as we move up the efficiency scale, so demand also would be limited in the first two grades, while it would be intensified in the responsible groups. Thus, the intensity both of supply and demand factors would run parallel and gather momentum as we reach the more skilled sections. In the United States, for instance, the pressure for entrance to the lower grades of the service has always been great, the general ratio of competitors to appoint-

1. The strength of each service in 1938 was .04 per cent, 5 per cent, 43 per cent (in two grades) and 55 per cent respectively.

ments being 19 to 1.¹

This classification would lead us to the basic compensation for the four groups being not only different but, perhaps, on the following scales in the case of India :

Rs. ²	Rs.	Rs.	Rs.
(a) 40,	(b) 80,	(c) 150,	(d) 300 a month

That is, the initial pay roughly doubles itself as we move up the groups.

Within these major groups, further classification is necessary, but it should not be atomised as in the United States of America where there are about two thousand separate classes. Such minute division would lead to rigidity, administrative confusion, and difficulties of recruitment and promotion. A few broad sub-groups, specially in salary classification, similar to those suggested below, appear adequate to standardise Public Service :

The main principle of the range of increment namely, 10 per cent increase, with Efficiency Bar, holds good of all the classes.

1. Donald Kingsley *op. cit.* p. 191.

2. This actually works out to about Rs. 37.

Group	Initial monthly basic salary Rs.	Group	Initial monthly basic salary Rs.
D	{ (a) 40 (b) 50 (c) 60 (d) 70	B	{ (a) 150 (b) 175 (c) 200 (d) 225 (e) 250 (f) 275
C	{ (a) 80 (b) 100 (c) 120 (d) 140	A	{ (a) 300

The minimum (Rs. 40) is based on the anticipated National Income of Rs. 135 per capita. This level is expected to be reached fifteen years after the Economic Plan is put into operation, that is, about 1960. It is very doubtful, however, if the expectation can materialise at the *present rate of activity and progress of planning*, though a determined execution of a better coordinated plan, as in the U.S.S.R., would enable a higher target to be reached quicker. This apart, whatever the logical and human merit of the minimum salary suggested, it can perhaps be reached only about 1960. A modification, therefore, may be necessary *in the interim period*, and this stop-gap can be achieved by the adoption of three sub-mini-

imum classes, namely, 25, 30 and 35. The time adjustment of the minimum would be 1946 Rs. 25; 1950 Rs. 30; 1955 Rs. 35; 1960 Rs. 40 with the rate of income, sliding scale, etc. applying as in the other cases. A similar *temporary* accommodation may be necessary with regard to the maximum of Rs. 1200 in order to smoothen the transition from the higher expectation under the existing scale to a lower level. So an adjustment moving counterwise to the minimum pay suggested above would be desirable :

Year of retirement when maximum will be reached	Maximum	Maximum
1946	as at present	25
1950	2500	30
1955	2000	35
1960	1500	40

This would avoid complications relating to current incumbents in particular grades.

What is of greater importance, especially in days of changing prices, is compensation in terms of real income. The vicissitudes in the cost of living and wholesale price are indica-

Adjustment to cost
of living

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1. The larger issue of the stabilisation of the price level and of greater stability vs *absolute* stability is outside our scope.

ted in tables II and III below.¹ cost of living has not been steady and, therefore, compensation fixed at a particular price level is bound to be different when prices change. If freedom from want is to be the basis, then real, not monetary return, should be considered. This would mean tagging on basic pay to cost of living indices and the adoption of a sliding scale so as to balance sudden uprushes of prices and equally drastic declines.

✓ Cost of living differs in different places, as between different classes and between different times, since the goods and services consumed by one class are not the same as those consumed by the other. A meticulous application of the sliding scale would demand an infinite number of cost of living indices leading to innumerable administrative difficulties. Further, since prices prevailing everywhere or of every commodity and service cannot be included in the construction of the index, but only a few basic ones and in a few specific places only can be considered, no index can accurately represent costs of living in difficult places nor can any two indices completely

1. *Vide* appendix.

agree. This is illustrated by comparing the Bombay, Calcutta and Ahmedabad indices in India, or the *Economist*, the *Statist* and the Board of Trade figures for the United Kingdom.

A great deal of hardship can, however, be avoided by considering the general level in one or two important representative centres. There is always general agreement about the trend, if not complete identity, as between different indices. Such a link between compensation and cost of living is obviously better for rounding off vagaries in real income than the non-adoption of any sliding scale or even the arbitrary fixing of dearness allowances or their reduction to balance price changes.

The cost of living level over a long period of about twenty five years both falls and rises in relation to the base year. If the rise was compensated by the fall in the course of a man's service, there would not be much necessity for the adoption of the sliding scale excepting as a temporary expedient in the case of abnormal changes, for, an employee in the course of his service would not *on the whole* be affected materially by price changes. On the other hand, as Table No. II indicates the rise

and fall in some countries generally do not equate each other. The net result over a period of 30 years has been an average of:

	Base 1929	1917—46 (average)
India		116
United Kingdom		104
United States of America		94
Canada		88
South Africa		105

Thus, apart from temporary difficulties suffered during rising prices, an employee will have in the course of his service really received less or more than what he was entitled to. Therefore, both to tide over abnormal rise and to make the total real income, in the course of an individual's service, not less than what he was meant to get, a sliding scale is absolutely necessary.

A rise or fall in price affects not merely the government employee but the community itself and a certain amount of suffering or advantage is inevitable for everybody. All that the public servant can, therefore, except is not to be victimised unduly because of the fixity of his pay when prices rise abnormally as since 1939. The other

Exempted mini-
mum rise and
maximum fall

sections of the community whose incomes are variable can make up to some extent in one direction what they lose by high prices in another. Similarly, when prices fall abnormally low, the government servant gets an undue advantage because the purchasing power of his fixed income goes up. Neither of these circumstances can equitably be allowed. Thus, it follows that, while a certain change in real income as a result of price changes must be suffered or enjoyed by the government servant along with other citizens, he can expect and should be given protection against abnormal variations. This means that the sliding scale should apply only after a minimum rise or maximum fall in the cost of living. This is not only equitable but administratively practicable since small variations may be overlooked by the government. "What is most urgently required at present is not absolute stability of prices but deliverance from the large and destructive swings of the price level from which the world has been suffering since 1914."¹ Such an adjustment of wages to cost of living in the case of industrial wages is found to a con-

1. Walter Layton and Crowther, *op. cit.* p. 206.

siderable degree in advanced countries as indicated in Tables VIII and IX.¹

Applying this idea I would suggest that the sliding scale be applied only after the cost of living index rises by 50 points or falls by 10. Thus, the relief that a government employee would get, because of a rise in cost of living, would become operative only if the index is more than 150, and contrarily only when the level is 90 would his salary be liable to reduction.

The level of exemption (+50 and -10) differs between the rise and fall, because the repercussions of a rise on purchasing power are not of the same *degree* as those of a fall. A hundred points *rise*, for instance, involves a 50 percent reduction in real income, whereas, a fifty points *fall* in the price index means a 100 per cent increase in purchasing power. Further, the frequency, intensity and duration of a rise are more than those of a fall in prices. Consequently, the rate of equation between a rise and fall would be about 4 or 5 points rise to 1 point fall (+5 = -1).

While cost of living indices are a fair basis

1. *Vide* appendix.

for a sliding scale, an alternative which renders rougher justice but is administratively more convenient is the wholesale price index. Comparison of cost of living and wholesale prices should, however, be made with great caution. For, retail-prices representing cost of living are much less subject to the influence of the world market and resist the downward movement of wholesale prices. The former lag behind the latter both in time and in extent, moving more slowly and less extensively. The cost of living indices, moreover, include items such as rent, lighting and transport which do not receive proportionate weight in the wholesale indices. Competition in the retail trade is at the most national though usually it is only local in scope.¹ On account of the regional character of retail trade, the retailer is frequently able, when wholesale prices, fall to sell his stock at or near the cost price to him, rather than at its replacement price, so that the consumer does not immediately reap the benefit of a decline in wholesale prices. Costs of living are

1. *World Production and Prices 1925-32* (League of Nations). Compare *An Introduction to the Study of Prices* by Sir Walter Layton and Geoffrey Crowther Chas. X and XI.

more heavily weighted with the elements of fixed costs than wholesale price indices, which are more susceptible to monetary influences. The discrepancy between the movements of these two indices illustrates the disequilibrium in the price structure which develops especially during a period of economic depression.

Nevertheless, there is considerable similarity between the wholesale and retail price indices if the same commodities are considered. "In the United States, for example, the wholesale prices of foodstuffs fell by 43 per cent from the beginning of 1929 to the beginning of 1933, while retail prices declined by 37 per cent; in Canada wholesale prices of foodstuffs fell by 38 per cent and retail prices by 35 per cent; in the United Kingdom, wholesale prices of foodstuffs fell by 27 per cent and retail prices by 23 per cent."¹ This agreement in the trend with, of course, a time lag can be observed in Tables Nos. II & III². "Though the fluctuation of retail prices", conclude Layton

1. *World Production and Prices 1925-1934*, p. 212 (League of Nations).

2. *Vide* appendix. See also the graphs on pp. 227-226, *World Economic Survey 1942-44* (League of Nations, 1945). Compare chart II in Layton and Crowther *op. cit.*

and Crowther,¹ "are less violent and less prompt than those of wholesale prices, the changes in the general level over a long period are always in the same direction and in most cases of approximately the same extent."

✓ On account of this similarity, the wholesale prices indices might also be *considered as an alternative* to cost of living indices for a sliding scale, and the suggestions made below may be applied to them *mutatis mutandis*. Since variations in wholesale prices will not be as local as those in the cost of living, since it is easier to construct a general price index, since over a long period the amount of adjustment is comparatively small and since a uniform procedure for the whole country is convenient of application, dependence on the wholesale price indices would perhaps be *administratively* more welcome—though in strict equity less desirable—because of the practical difficulties of compiling a retail price index number.²

✓ The first essential of a sliding scale is the acceptance of a base year with reference to which rise and fall in the price level is judged and basic salary adjusted. For illustrating my

1. *Op. cit.* p. 19.

2. For details of difficulties *vide Ibid* p. 18 and ff.

argument, I have taken 1929 as the base for the years 1921-1946. The base should not be too far removed from the year or years of application of the sliding scale ; otherwise, the index would be distorted and cannot indicate correctly the real rise or fall in prices as is evident by taking 1913-14 as base. I should suggest, to start with, 1929 or even the average of 1925-1929. It would also be necessary to shift the base forward, about once in every twenty five years, if not every decade, so as to keep abreast of changing economic conditions and new social outlook.

So far I have pointed out that there should be an adjustment of salaries to the price level and that such interdependence should become

operative only after a minimum rise or maximum fall in the cost of living. The actual

Slabs and rates adjustment of wages to variations beyond this minimum or maximum involves the grouping of the salary scales into slabs as for income taxation and for similar reasons. Since the marginal utility of money decreases with an increase in income and as the need for relief decreases with increasing wages, *as a broad principle*, the degree of relief needed is reduced as we move up in the salary scale, so that the

extra compensation will be proportionately less in the higher grades, while the rate of reduction in compensation, because of lower prices, increases progressively as we move up the income scale. Thus, the relief for increase and the reduction for decrease in prices move counterwise, that is, benefits are regressive and reductions progressive. The following scale may be suggested:

TABLE NO. V

A SUGGESTED SLIDING SCALE

Salary Slab.	Relief.	Reduction.
	(1)	(2)
100 and below	60	nil
101—200	50	10
201—300	40	20
301—500	30	30
501—1000	20	40
1000 and above.	15	50

1. Rates are percentages of rise in prices beyond the no-relief level (i. e. 150)

2. Rates are percentages of fall in prices below the no-reduction level (i. e. 90).

Whatever the degree of fall in prices no reduction is suggested in the first slab because

of the low level of remuneration so that the employee gets relief for a rise in prices but suffers no disadvantage in his salary for any general fall in the cost of living. In the scale suggested above, the rate of increase is the proportion of the increase in prices beyond the minimum rise. Thus, for instance, if prices rise to 180 the increase is considered as 30 points—150 being the minimum—and the first slab, entitled to a concession of 60 per cent of the rise, gets 18 per cent increase in the salary, the second gets 50 per cent of the rise, that is 15 per cent increase in the salary, the third gets 40 per cent of thirty points that is, 12 per cent increase in its salary and so on. Thus, in the last of the slabs, under similar circumstances, the employee would get an increase of $4\frac{1}{2}$ per cent in his salary, which is 15 per cent of the rise in prices beyond the minimum. Similarly, the decrease refers to the fall below the maximum viz: 90 points, Thus, if the price level is 60, which is equivalent to a fall of 30 points below 90, an employee in the first slab is not affected in any way. He continues to enjoy the salary he was getting, so that his purchasing power increases to 166 per cent; the employee in the next slab has his salary reduced by one tenth of the fall,

that is, 3 per cent of his salary, while in the next group the cut is 6 per cent, in the next one by 9 per cent and so on. In the last slab the rate of reduction is steeper than that of relief. The effects and operation of the scheme are illustrated in Table No. VI. (*Vide* appendix)

Salary adjustments to the cost of living may normally be made once a year in the annual budget. The index number of the preceding 12 months may be utilised. This no doubt, introduces a time lag, but it is administratively convenient. It also ensures equity over a long period. In Denmark¹ the adjustment was made twice a year but interference more often than annually would upset budget calculations as well as complicating the administration of the relief without any corresponding advantage to the employee.

The financial implications of such a scheme do not appear to be heavy. The extent to which relief or reduction would be necessary is indicated in Table No. IV. The *annual average net expenditure* under the scheme may

1. O. T. Skjarboeck: Administration and conditions of Civil servants in Denmark. (*Public Administration* 1927, P. 20)

not exceed in India 5 per cent of the salaries though in any one year it may be high.¹ With lower rates of relief in higher salary ranges, reduction in the maximum basic pay, and the probable reduction in staff owing to increased efficiency, the burden on the finances may be much less.

RANGE OF INCREMENTS

Initial salary, however high or low, is not of much importance unless there is a range of increments. Regulated increases are necessary if interest in work is to be maintained and efficiency encouraged. An employee in India may ordinarily be expected to serve for about 25 to 30 years, and he should be aware of his service prospects, if his efficiency is of the average standard. The range of increase in some of the established Services in India and elsewhere is given below :

-
1. Between 1917 and 1946, with 1929 as base, the relief needed amounts to 13 percent per annum while the reduction is 5 percent per annum on an average. At the *maximum rate of relief* (60 percent of the rise) applied to *all* employees the extra burden to the state would be 5 per cent per annum. With the reductions for fall in prices and regressive rates, the real burden would probably be in the range of 3 and 4 per cent.

TABLE NO VII
RANGE OF INCREMENT (1)

India	Starting Rs.	Maximum Rs.	Range
I.C.S.	450	2,650	1 to 5
I.M.S.	500	1,500	1 to 3
I.P.S.	355	1,350	1 to 4
I.F.S.	320	1,350	1 to 4
I.S.E.	300	1,300	1 to 4
I.E.S.	400	1,350	1 to 3½
I.A. & V.S.	350	1,300	1 to 4
United Kingdom :	£	£	£
Administrative			
group ...	277	1,100	1 to 4
Executive			
group ...	152	634	1 to 4
Clerical ...	85	350	1 to 4
Germany			
Higher Civil			
Service ...	320	1,600	1 to 5

The representative range is 1 to 4 which may be taken as a very liberal rate for any employee and which may be applied generally to all public servants. Thus, a person who starts on Rs. 100 may expect to retire on Rs. 400. The employee normally joins service when he is a novice and without much family responsibilities, so that for the first 12 years of service he has less need for the same amount of increase as in the latter half of his career, and therefore, there should be a better distribution

of purchasing power between times of light or no family responsibilities and heavy family responsibilities. An annual increase of 10 per cent of the basic pay throughout the service excepting for two years of probation at the commencement and two years of efficiency bar in the middle would work out the increase between the start and the retirement at 4 times the initial salary as below :

RANGE OF INCREMENT (2)

Group	Probation (2 years)	Initial pay	Annual Increase (10%)	Efficiency Bar (2 years)	Annual Increase	Maxi- mum
A (1)	40	40	4	80	8	160
(2)	50	50	5	100	10	200
(3)	60	60	6	120	12	240
(4)	70	70	7	140	14	280
B (5)	80	80	8	160	16	320
(6)	100	100	10	200	20	400
(7)	120	120	12	240	24	480
(8)	140	140	14	280	28	560
C (9)	150	150	15	300	30	600
(10)	175	175	17½	350	35	700
(11)	200	200	20	400	40	800
(12)	225	225	22½	450	45	900
(13)	250	250	25	500	50	1000
(15)	275	275	27½	550	55	1100
D (15)	300	300	30	600	60	1200

As between the different groups the *quantum*, though not the rate, of increase would be low in groups A and B, increasing as we move up. This is because the competitive demand in the first two groups would be comparatively less than that in the second two. Moreover, the cost of the training would not also be as high in the former. The responsibilities of the latter groups and the degree of efficiency expected in them will also be higher. It is, therefore, neither necessary nor equitable to have the same quantum of increase in all the groups. In the D group whose remuneration is adequate for a high standard of living but not equated to their efficiency, the relatively slower rate can be largely made good, as pointed out below, by special allowances and more by non-financial factors such as prestige and power. Broadly speaking, therefore, the element of basic salary is proportionately reduced in importance as we move the up kind of service while the factors of allowance and prestige progressively increase.

ALLOWANCES

Basic pay, even if it could be fixed for all classes of employment and not merely for key classes would be insufficient, for it is essentially characterised by rigidity. To meet varying envi-

ronmental factors, such as the intensity of competitive demand, differences between cities and towns, and varieties of work and responsibilities, compensation should have flexibility. One of the prime requisites of a successful and equitable compensation plan is adjustibility to meet new conditions, apart from changes in cost of living. Such flexibility can be introduced by variations in allowances which may be correlated with five different major items.

Not only do costs of living differ between the urban and the rural areas and between the large and the small city, there is also difference geographically in the conveniences and comforts between these centres. Some items of expenditure are peculiar to cities and, in fact, they grow in magnitude as the size of the city increases. For instance, costs of conveyance, rent and services are negligible in a town but not in a city. Thus, even where the general price level, to which salary adjustments have been made both in the city and in the town has been provided for, an employee in a city should get extra advantage to compensate city life. Such concessions can best be given

**The Geographical
Factor**

by allowances and not by varying the basic salary. From a geographical point of view, allowances may be grouped into three classes—towns, cities and specially large cities, such as Bombay, Calcutta and Delhi in India. The largeness of a city does not denote so much the population or the area as the kind of congested, expensive and uncomfortable life associated with it. Thus, in size and population Delhi is a small city but in discomfort and expense it is as bad as Bombay or Calcutta. Therefore, the variety and amount of allowance should be adjusted to the kind of life, both increasing as we move up from town to city and finally to large cities. This practice prevails at present to a limited extent, but is arbitrary in most countries.

Allowances may also be related to the *group factor*. It has been suggested above

how services can be grouped into four major classes according to the cost of training, the degree of efficiency and responsibility, the value of the service to society, etc. The A and B groups have not the same claim for allowance as the C and D, for, the basic pay of the former largely provides for the allow-

ance factor. Of C and D, the latter is entitled to the most liberal treatment because, as pointed out already, the basic pay and the range of increment, particularly in the second part of the service, are not commensurate with their ability. The inadequacy can be made good by a liberal grant of allowance as well as by prestige and power. This means that the other groups are not entitled to any special consideration *based on the group factor*, although they could get the geographical concession pro rata on the first basis.

A third aspect of flexibility is based on *the occupational factor*. This would be a cross section of the grouping mentioned

The occupational
factor

above. Thus, in the D group an engineer or a medical man should get more allowances than a university teacher, although both the jobs are in the same geographical area. Where the degree of physical discomfort is greater, as in an executive and responsible job, or where the non-financial factors, such as the atmosphere in which the work is carried on—contrast a University with a factory—, or where leisure, prestige and similar considerations are few, the deficiency in this direction must be made good by allow-

ances. This kind of distinction is found and can be introduced in all the four groups. Thus, a sweeper or a servant in a factory is entitled to larger allowances than a sweeper or a servant in a university, although both of them belong to the same group ; viz. A.

A fourth factor is the *nature and intensity of competitive demand* for the employee's ser-

**The rival
demand factor**

vices. In a highly industrialised centre, for example, Bombay, Calcutta or Ahmedabad, the demand for a sanitary engineer's services is greater than in a centre like Delhi. Delhi is geographically (factor 1) on an equality with Bombay ; the sanitary engineer is in the same group, D, wherever he is (factor 2) ; he performs the same job as discussed in factor 3. Although in every other respect he is on the same footing as an equally efficient man in Delhi, the competitive demand for his services from other employers or his opportunities for private practice, are definitely keener in industrialised and congested Bombay than in a wax model like Delhi. The competitive element is entirely independent of the geographical factor and is more related to industrialisation than to size. Thus, in order to balance rival demands,

allowances must increase progressively with the degree of industrialisation of the area in which a person works and the extent of competitive demand.

A fifth factor affecting allowances is the *opportunity for overtime*. As already pointed out, one of the unpleasant features of government service is overtime work without overtime reward. Not all kinds of employment in government need be overtime, but where overtime is necessary and inevitable, such jobs should always be compensated on the same level as is done in industries. Overtime work involves greater marginal sacrifice than ordinary work of the same degree of efficiency, for, it cuts into the much needed and valued leisure and rest. In business, overtime generally carries one and a half to two times the normal remuneration. Such ought to be the nature of allowances a government servant gets for extra work, but at least the normal rate of payment in the shape of overtime or extra allowances for extra work done is necessary both in fairness and for loyalty. There is, of course, the fear that even without such an attraction and in spite of the fear of extra work, delay, lethargy

and inefficiency characterise the normal working of government departments at present. This, however, is more the result of bad selection of material, cumbersome and unnecessary administrative routine and, more than all, of inefficient and indifferent chiefs whose duty it is to extract work. A scientific classification of jobs, a proper selection of men and a rational reorganisation of the administrative routine would go a long way to bring up efficiency to business levels.

The factors influencing allowances have long been in operation in advanced business houses. Apart from salaries and pensions they give annual bonuses, retiring bonuses, free of incometax, provident fund contributions, remittances above the current rate of exchange, furnished free quarters, conveyance allowances, travelling facilities for officers and sometimes for their families, etc. Not that all businesses give these facilities or to all employees or even all concessions at the same time, but they treat their servants with more imagination and generosity, expecting and extracting greater efficiency, than in government service. That is why the Lee Commission said¹ "It is not

1. *Report*, para 48.

suggested that government is in a position to treat its own employees in such generous fashion, but the disparity of remuneration as between a commercial and an official career has become so conspicuous, and so discouraging to civil servants, that we feel something should be done without delay to restore contentment." Not only fair play demands the flexibility in allowances but efficiency and loyalty expect it. What the Lee Commission said of the higher Civil Services in India is equally applicable to all government employees.

The scheme of allowances suggested above on the one hand, leads to a fair treatment of employees according to conjunctural and efficiency factors, and, on the other, is of great advantage administratively and financially. For, an employee is entitled, wherever he is, to his basic pay only, while the allowances, however high, are correlated not with the individual but with a particular set of circumstances. The amount of such expenditure can definitely be gauged and provided for, since the places and positions carrying them are fixed. It is only when a person does a *particular job in a particular place* will the extra be payable, not otherwise. Of course, the totality of such allowances must always have a limit and such limit should be

placed, not with reference to the basic salary a person is getting, but to the kind and place of work involved.

Another important consideration in compensation is the provision for training facilities at state expense. As already pointed out,¹ efficiency should be the basis of government work and efficiency is changing rapidly, especially in technical branches. A state employee should keep himself up-to-date so as to benefit by improved methods; otherwise, stagnation and even deterioration both of the individual and of his department will set in. Advanced business houses frequently send out their promising employees for further training at the firm's cost and, thus, make sure of their efficiency and loyalty. The state also should provide facilities at its own expense. And the more and the better opportunities it gives, the greater will be the benefit it will enjoy and the less the pay it need offer. It may be suggested that normally everyone of its deserving employees, especially in the C and D groups, should be given such training facilities at least twice in their service. For, normally outstanding im-

1. *Supra* Ch. II.

provements in any direction cannot be expected more than twice in a generation, and, further, since the state will be sending out its employees in successive batches there will be a continuous flow of trainees in and out of governmental employment. It should, therefore, be sufficient if a person gets his chance once in a decade—once in the first ten years and again the in the second ten.

TABLE II
INDEX NUMBERS OF COST OF LIVING ¹
BASE 1929 = 100

Year	India	U.K.	U.S.A.	Canada	S. Africa	Australia	New Zealand
1917	71	110	81	86	93	....	80
1918	90	130	94	98	100	....	90
1919	112	131	106	107	111	....	97
1920	114	156	127	125	136	....	114
1921	105	138	100	107	123	....	110
1922	98	111	96	99	103	....	98
1923	91	104	100	96	100	98	98
1924	94	104	100	98	101	97	100
1925	105	106	104	100	102	98	101
1926	104	105	104	100	99	98	101
1927	103	102	102	99	100	97	100
1928	99	101	101	99	100	98	100
1929	100	100	100	100	100	100	100
1930	92	96	97	99	98	95	98
1931	74	90	87	90	94	85	90
1932	73	88	78	81	90	81	84
1933	69	85	75	78	87	78	79
1934	65	86	79	79	89	80	81
1935	68	87	82	79	88	81	83
1936	69	90	84	81	89	83	86
1937	106	94	88	83	91	85	92
1938	106	95	86	84	94	87	95
1939	106	96	84	83	94	89	99
1940	112	112	85	87	97	93	103
1941	124	121	89	92	102	98	107
1942	157	122	98	96	110	106	110
1943	235	122	103	97	117	110	113
1944	243	126	104	98	121	109	113
1945	241	127	106	98	124	109	113
1946	255	....	106	99	125	....	113

1. Data are from the *Statistical Year Books* of the League of Nations, the prices have been reduced to 1929 base.

TABLE III
INDEX NUMBERS OF WHOLESALE PRICES ¹
BASE 1929-100

Year	India	U.K.	U. S. A.	Canada.	S.Africa.	Australia	New Zealand
1917	91	153	121	120	121	91	97
1918	111	168	136	133	131	107	114
1919	123	180	143	140	142	113	119
1920	126	220	160	163	192	137	140
1921	112	135	101	114	172	105	130
1922	110	114	100	101	110	97	112
1923	108	112	104	102	109	108	107
1924	108	122	103	103	112	104	112
1925	100	119	107	107	110	97	103
1926	105	109	105	105	106	102	104
1927	105	104	100	102	107	101	99
1928	103	103	102	101	104	99	100
1929	100	100	100	100	100	100	100
1930	82	88	91	91	89	93	98
1931	68	77	77	75	86	85	91
1932	65	75	68	70	79	82	89
1933	62	75	69	70	80	79	92
1934	63	77	79	75	88	79	92
1935	65	78	84	75	82	81	95
1936	65	83	85	78	85	84	96
1937	72	95	91	88	87	89	103
1938	68	89	83	82	90	89	105
1939	76	90	81	79	88	89	108
1940	85	120	83	87	98	98	121
1941	99	134	92	94	107	104	133
1942	130	140	104	100	120	117	143

1. Data for 1921-42 from the *Statistical Year Books* of the League of Nations, reduced to 1929 base.

TABLE IV

MARGIN OF ADJUSTMENT TO COST OF LIVING

Base = 1929 Min : rise = 150+ Max : fall = 90—

Year	India	U.K.	U.S.A.	Canada	Australia	S.Africa	New Zealand
1917	—19	....	—9	—4	—7	....	—10
1918	....	....	....	....	....	....	....
1919	....	....	....	....	....	....	....
1920	....	+ 6	....	....	....	....	....
1921	....	....	....	....	....	....	....
1922	....	....	....	....	....	....	....
1923	....	....	....	....	....	....	....
1924	....	....	....	....	....	....	....
1925	....	....	....	....	....	....	....
1926	....	....	....	....	....	....	....
1927	....	....	....	....	....	....	....
1928	....	....	....	....	....	....	....
1929	....	....	....	....	....	....	....
1930	....	....	....	....	....	....	....
1931	—16	....	—3	....	—5	....	....
1932	—17	—2	—12	—8	—9	....	—6
1933	—21	—5	—15	—12	—12	—3	—10
1934	—25	—4	—11	—11	—10	—1	—9
1935	—22	—3	—7	—11	—9	—2	—7
1936	—21	....	—5	—9	—7	—1	—4
1937	....	....	—1	—7	—5	....	....
1938	....	....	—4	—6	—3	....	....
1939	....	....	—6	—7	—1	....	....
1940	....	....	—5	—3	....	....	....
1941	....	....	—1	....	....	....	....
1942	+ 7	....	....	....	....	....	....
1943	+ 85	....	....	....	....	....	....
1944	+ 93	....	....	....	....	....	....
1945	+ 91	....	....	....	....	....	....
1946	+ 105	....	....	....	....	....	....

TABLE VI
OPERATION OF THE SLIDING SCALE
ILLUSTRATED

Cost of living index	Rise or fall to be provided for (exempted Max. or Min.-plus or minus)	Rate of relief or reduction (percentage)	Amount of relief or reduction Rs.	Total pay Rs.	Real income Total pay in terms of base price level Rs.
I. BASIC PAY Rs. 100.					
100	....	....	....	100	100
130	....	....	....	100	77
160	10	60	6	106	66
220	70	60	42	142	65
270	120	60	72	172	64
85	-5	....	....	100	118
70	-20	....	....	100	143
II. BASIC PAY Rs. 250.					
100	....	....	....	250	250
130	....	....	....	250	192
160	10	40	10	260	163
220	70	40	70	320	145
270	120	40	120	370	137
85	-5	-20	$-2\frac{1}{2}$	$247\frac{1}{2}$	290
70	-20	-20	-10	240	343

(Table VI continued)

Cost of living index	Rise or fall to be provided for (exempted Max. or Min.-plus or minus)	Rate of relief or reduction (percentage)	Amount of relief or reduction Rs.	Total pay Rs.	Real income Total pay in terms of base price level Rs.
III. BASIC PAY Rs. 400.					
100	....	....	....	400	400
130	....	....	....	400	308
160	10	30	12	412	257
220	70	30	84	484	220
270	120	30	144	544	202
85	-5	-30	-6	394	463
70	-20	-30	-24	376	537
IV. BASIC PAY Rs. 800.					
100	....	....	....	800	800
130	....	....	....	800	615
160	10	20	16	816	510
220	70	20	112	912	414
270	120	20	192	992	365
85	-5	-40	-16	784	922
70	-20	-40	-64	746	1066

TABLE VIII

GENERAL LEVEL OF WAGES AND COST OF
LIVING ¹

Base 1929=100

YEAR	U. S. A.			NEW ZEALAND		
	Cost of living	Money wages ¹	Real wages	Cost of living	Money wages	Real wages
1929	100	100	100	100	100	100
1930	97	93	[90]	102	98	105
1931	87	83	94	96	90	107
1932	78	68	85	86	84	103
1933	75	66	89	82	79	104
1934	79	72	94	79	81	98
1935	83	78	100	79	83	95
1936	85	83	108	84	86	98
1937	89	91	115	99	92	108
1938	86	83	108	106	95	111
1939	84	90	118	110	99	112
1940	85	96	123	114	103	111
1941	89	118	138	122	107	114
1942	98	146	154	147	110	133
1943	105	172	171	....	....	....
1944	107	184	180	....	....	....
1945	109	177	170	....	....	....
1946	....	168	158	....	....	....

1. Data from *International Labour Review* and *Statistical Year Book of the League of Nations*.

TABLE IX

GENERAL LEVEL OF MONEY WAGES ¹

Base 1929=100

YEAR	U. K.	CANADA	S. AFRICA	AUSTRALIA
1929	100	100	100	100
1930	100	101	100	99
1931	98	96	97	90
1932	96	91	93	84
1933	95	86	94	81
1934	96	87	94	82
1935	97	89	98	83
1936	100	91	100	84
1937	104	98	100	88
1938	107	101	101	93
1939	108	101	101	95
1940	122	104	....	....
1941	144	100	....	....
1942	161	112	....	....
1943	176	120	....	....
1944	180	124	....	....
1945	175	125	....	....
1946	....	127	....	....

1. Data from the *International Labour Review and Statistical Year Book* of the League of Nations.